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RECESSION - RECOVERY WATCH...

A Bimonthly Report
Designed to Assist in the Evaluation
of Current Business Conditions

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Summary

Some of the leading indexes are pointing to a slowdown while others suggest continued growth at a moderate pace. We would place the Commerce Department's (BCD) leading index in the "slowdown" group, since its six-month smoothed growth rate in September was only 1.5%, and the rate has been hovering around that level since last November. The leading index based upon survey data of the National Association of Purchasing Management has been slowing also, with the October figures showing a 2.3% growth rate. In the more optimistic camp is the long-leading index, where the September growth rate was 5.5%, close to the level it has been registering since last February. The Business Week leading index was in the slowdown group earlier this year, but not lately. Its latest growth rate, based on the four weeks ending October 22, was 5.8%. Another index that covers October, the leading employment index, is indicating continued growth too, with an October growth rate of 5.7%. So the consensus among the leading indexes is: Some possibility of slower growth in 1989 than in 1988, but no sign of recession.

The danger of a further advance in the rate of inflation has diminished, judging from the leading index of inflation. The October index was well below its peak last June. Growth in industrial materials prices and in import prices has slowed, and fewer purchasing managers are reporting increases in buying prices.

The Long-Leading Index Anticipated The Great Depression, but it Doesn't See One Now

The long-leading index now has a longer historical record than any other leading index currently available. Using historical data for all four components or close equivalents from the files of the National Bureau of Economic Research, we constructed a monthly index back to 1919. It consistently led the

business cycle turns in the 20's and 30's, with the exception of the very mild 1926-27 recession, when the index merely hesitated. It reached a peak in December 1928, eight months before the Great Depression began. Its six-month smoothed growth rate became negative in January 1929, and remained negative until June 1930. After a modest recovery it hit the negative trail again in August 1931, remaining at depressed levels until August 1932. Its upturn then anticipated the end of the Great Depression, which came in March 1933.

As noted above, the latest figures for the long-leading index are consistent with some slowing in economic growth in 1989, but are not predicting a recession, certainly not a Great Depression!

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The series numbers of indicators that are reported in Business Conditions Digest are noted above. Readers may wish to consult the 1984 Handbook of Cyclical Indicators for further information on particular time series. The letter symbols L, C, Lg and U identify the timing classification of the series with respect to business cycles, as shown in Business Conditions Digest. L = leading, C = coincident, Lg = lagging, and U = unclassified because of inconsistency in timing. The three letters in parentheses refer to peaks, troughs and to peaks and troughs, respectively. When the series we use is similar to but not identical with the BCD series, the BCD classification has been used. In the case of growth rates, we show the classification only where a similar growth rate for the same or similar series is classified in BCD.

A GUIDE TO RECESSION-RECOVERY WATCH TABLES

As readers of Recession-Recovery Watch know, the record of previous business cycle expansions provides a guide to the future prospects of the current expansion. The idea is, of course, incorporated in the Recession-Recovery Watch pattern charts and tables.

The tables cover more than sixty indicators and give the information needed to compare the current expansion with two very long expansion since 1961. The two very long expansions are: 1961-69, (106 months) and 1975-80 (58 months). The expansions that are excluded covered the following periods: 1949-53, 45 months; 1954-57, 39 months; 1958-60, 24 months; 1970-73, 36 months; 1980-81, 12 months.

Series that are expressed as growth rates, changes, or ratios appear as actual values (Table 1) and as differences from business percentages of business cycle trough standings (Table 3). All other series are expressed as percentages of business cycle trough standings (Table 2). The standing is a three month average centered on the trough month. In the case of quarterly series the trough standing is the figure for the business cycle trough quarter. The monthly and quarterly trough dates are those established by the National Bureau of Economic Research.

TABLE 1

RECESSION-RECOVERY STATUS UP TO 70 MONTHS AFTER THE BUSINESS CYCLE TROUGH
Actual Levels

		UNIT	Months After Business cycle Trough	Expansions Starting Feb. 1961	Expansions Starting Mar. 1975	Current Expansion Starting Nov. 1982	Last Month or Quarter Available
I.	Composite Indexes						
6.	BUSINESS WEEK LEADING INDEX, GROWTH RATE	%	70	-8.7	-4.0	3.7	SEP
6A.	LONG LEADING INDEX, GROWTH RATE	%	70	-6.1	1.0	5.4	SEP
6B.	N.A.P.M. INDEX, GROWTH RATE	%	70	-2.2	2.7	2.4	SEP
7.	LEADING EMPLOYMENT INDEX, GROWTH RATE	%	70	0.2	6.4	5.9	SEP
8.	COINCIDENT EMPLOYMENT INDEX, GROWTH RATE	%	70	5.7	2.3	5.8	SEP
9.	LEADING INDEX (BCD), GROWTH RATE	%	69	-5.2	6.7	1.7	AUG
10.	COINCIDENT INDEX (BCD), GROWTH RATE	%	69	5.2	1.3	3.8	AUG
10A.	SERVICES LEADING INDEX, GROWTH RATE	%	70	-0.3	4.1	2.0	SEP
10B.	SERVICES COINCIDENT INDEX, GROWTH RATE	%	70	3.9	1.6	2.7	SEP
11.	DIFFUSION INDEX OF LEADING INDICATORS	% RISING	70	22.0	78.0	67.0	SEP
13.	RATIO, COINCIDENT TO LAGGING INDEX	1967=100	69	99.3	118.8	120.3	AUG
15.	NINE-COUNTRY LEADING INDEX, GROWTH RATE	%	68	0.1	-4.4	5.6	JUL
II.	Output, Income and Sales						
17.	REAL GNP GROWTH RATE	%	230	3.0	0.6	3.1	Q3
III.	Employment and Unemployment						
23.	EMPLOYMENT TO POPULATION RATIO	%	70	58.0	59.5	62.7	SEP
28.	EMPLOYMENT DIFFUSION INDEX, 186 INDUS.	% RISING	70	71.3	74.6	66.5	SEP
29.	UNEMPL. SEVERITY INDEX	WEEKS PER 100 IN LABOR FORCE	70	35.1	105.1	72.6	SEP
30.	UNEMPLOYMENT RATE: TOTAL	%	70	3.7	7.4	5.3	SEP
31.	UNEMPLOYMENT RATE: INSURED	%	70	2.3	3.5	2.1	SEP
33.	SHORT-DURATION UNEMPLOYMENT RATE	%	70	3.0	5.2	4.0	SEP
34.	LAYOFF RATE UNDER 5 WEEKS (TIMES 10)	%	70	3.1	5.4	3.8	SEP
35.	PART-TIME EMPLOYMENT RATIO	%	70	4.3	2.9	3.1	SEP
IV.	Investment Commitments and Inventories						
42.	INVENTORY/SALES RATIO	%	68	15.0	16.0	15.3	JUL
43.	CHANGE IN INVENTORIES ON HAND & ON ORDER	BIL. 82$.	68	38.8	-6.3	11.5	JUL
V.	Productivity, Wages, Costs, Prices and Profits						
44.	OUTPUT PER HOUR, GROWTH RATE	%	220	1.1	0.3	1.0	Q2
45.	UNIT LABOR COSTS, GROWTH RATE	%	220	5.0	10.6	3.4	Q2
46.	HOURLY COMPENSATION, GROWTH RATE	%	220	6.3	10.9	4.5	Q2
47.	REAL HOURLY COMPENSATION, GROWTH RATE	%	220	2.7	-1.0	0.3	Q2
48.	SELLING PRICE INDEX, GROWTH RATE	%	220	3.1	9.3	2.3	Q2
49.	GROWTH IN PRICES MINUS GROWTH IN COSTS	% POINTS	220	-1.9	-1.3	-1.1	Q2
50.	CORPORATE PROFIT MARGIN	%	220	12.5	4.2	6.4	Q2
51.	PRICE/LABOR COST RATIO	1977=100	220	100.6	95.8	98.7	Q2
55.	CONSUMER PRICE INDEX, GROWTH RATE	%	70	3.1	11.0	4.5	SEP
57.	INDUSTRIAL MAT. PRICE INDEX, GROWTH RATE	%	70	-9.8	-1.1	3.0	SEP
58.	IMPORT PRICES EXCL. FUELS, GROWTH RATE	%	70	3.0	7.5	5.0	Q3(SEP)
59.	ANTICIPATED SELLING PRICES (D&B SURVEY)	% RISING	70	75.0	89.0	71.0	Q3(SEP)
VI.	Money, Credit, Interest Rates and Stock Prices						
60.	BUSINESS & CONSUMER DEBT, GROWTH RATE	%	69	6.5	6.8	8.9	AUG
61.	FEDERAL DEBT, GROWTH RATE	%	70	1.3	12.0	8.7	SEP
62.	TOTAL DEBT, GROWTH RATE	%	69	4.6	8.0	8.3	AUG
63.	MONEY SUPPLY (M1), GROWTH RATE	%	70	1.5	7.7	4.5	SEP
64.	MONEY SUPPLY (M2), GROWTH RATE	%	70	4.1	8.9	5.0	SEP
65.	TREASURY BILL RATE (3-MONTH)	%	70	5.0	15.0	7.2	SEP
66.	NEW CORPORATE BOND YIELD (AA)	%	70	6.0	14.0	10.1	SEP

TABLE 2

RECESSION-RECOVERY STATUS UP TO 70 MONTHS AFTER THE BUSINESS CYCLE TROUGH
Percentage Change from Trough Levels

	Months After Business Cycle Trough	Expansions Starting FEB. 1961	Expansions Starting MAR. 1975	Current Expansion Starting Nov. 1982	Last Month or Quarter Available
I. Composite Indexes					
1. BUSINESS WEEK LEADING INDEX (CIBCR)	70	21.1	21.2	46.4	SEP
1A. LONG LEADING INDEX (CIBCR)	70	42.9	13.4	61.5	SEP
1B. N.A.P.M. INDEX	70	39.0	26.1	31.9	SEP
2. LEADING EMPLOYMENT INDEX (CIBCR)	70	40.7	28.6	41.6	SEP
3. COINCIDENT EMPLOYMENT INDEX (CIBCR)	70	45.8	39.0	49.3	SEP
4. LEADING INDEX (BCD)	69	34.7	31.4	38.5	AUG
5. COINCIDENT INDEX (BCD)	69	46.6	28.6	34.2	AUG
12. LAGGING INDEX (BCD)	69	29.6	4.6	22.7	AUG
14. NINE-COUNTRY LEADING INDEX (CIBCR)	68	9.2	22.8	39.6	JUL
II. Output, Income and Sales					
16. REAL GNP	23Q	33.4	21.1	26.8	Q3
18. INDUSTRIAL PRODUCTION INDEX	70	57.9	34.2	37.6	SEP
19. REAL PERSONAL INCOME	69	32.8	21.4	21.5	AUG
20. REAL CONSUMER EXPENDITURES	68	29.4	19.4	25.0	JUL
21. REAL RETAIL SALES	69	30.8	16.9	28.4	AUG
III. Employment and Unemployment					
22. TOTAL EMPLOYMENT	70	12.3	16.9	16.1	SEP
24. NONFARM EMPLOYMENT	70	21.7	18.9	20.3	SEP
25. NONFARM EMPLOYEE-HOURS	70	21.5	17.6	20.7	SEP
26. EMPLOYMENT IN GOODS-PRODUCING INDUSTRIES.	70	19.6	13.5	11.6	SEP
27. EMPLOYMENT IN SERVICE-PRODUCING INDUSTRIES	70	22.9	21.1	23.3	SEP
32. INITIAL CLAIMS, UNEMPLOYMENT INSURANCE	70	-45.3	-19.9	-51.4	SEP
36. AVERAGE WORKWEEK, MANUFACTURING	70	4.1	2.9	5.6	SEP
37. OVERTIME HOURS, MANUFACTURING	70	71.4	25.0	73.9	SEP
IV. Investment Commitments and Inventories					
38. NEW PRIVATE HOUSING STARTS	70	-20.2	59.9	13.3	SEP
39. NEW PRIVATE HOUSING PERMITS	70	-26.9	49.0	11.2	SEP
40. CONTRACT & ORDERS, PLANT & EQUIPMENT	69	67.4	41.9	98.2	AUG
41. NEW CAPITAL APPROPRIATIONS, MANUFACTURING	22Q	121.8	38.4	90.0	Q2
V. Productivity, Wages, Costs, Prices and Profits					
52. LARGE BUSINESS FAILURES	70	53.7	85.1	-12.5	SEP
53. LEADING INDEX OF INFLATION (CIBCR)	70	11.1	11.1	18.4	SEP
54. CONSUMER PRICE INDEX, ALL URBAN CONSUMERS	70	10.4	65.3	21.9	SEP
56. INDUSTRIAL MATERIALS PRICE INDEX	70	1.4	33.5	14.9	SEP
VI. Money, Credit, Interest Rates and Stock Prices					
67. STOCK PRICE INDEX (S&P 500)	70	31.2	60.5	96.0	SEP

TABLE 3

RECESSION-RECOVERY STATUS UP TO 70 MONTHS AFTER THE BUSINESS CYCLE TROUGH
Differences from Trough Levels

	Unit	Months After Business Cycle Trough	Expansions Starting FEB. 1961	Expansions Starting MAR. 1975	Current Expansion Starting Nov. 1982	Last Month or Quarter Available
I. Composite Indexes						
6. BUSINESS WEEK LEADING INDEX, GROWTH RATE	%	70	-15.2	1.3	-0.8	SEP
6A. LONG LEADING INDEX, GROWTH RATE	%	70	-10.8	0.9	-10.7	SEP
6B. N.A.P.M. INDEX, GROWTH RATE	%	70	-2.1	20.2	5.4	SEP
7. LEADING EMPLOYMENT INDEX, GROWTH RATE	%	70	2.4	16.3	5.0	SEP
8. COINCIDENT EMPLOYMENT INDEX, GROWTH RATE	%	70	13.7	19.0	13.7	SEP
9. LEADING INDEX (BCD), GROWTH RATE	%	69	-6.5	20.2	-2.9	AUG
10. COINCIDENT INDEX (BCD), GROWTH RATE	%	69	12.0	16.4	10.6	AUG
10A. SERVICES LEADING INDEX, GROWTH RATE	%	70	-2.5	0.3	-2.8	SEP
10B. SERVICES COINCIDENT INDEX, GROWTH RATE	%	70	2.1	1.8	1.7	SEP
11. DIFFUSION INDEX OF LEADING INDICATORS	% RISING	70	-14.7	60.3	20.3	SEP
13. RATIO, COINCIDENT TO LAGGING INDEX	1967=100	69	11.5	22.1	10.3	AUG
15. NINE-COUNTRY LEADING INDEX, GROWTH RATE	%	68	-3.5	7.5	5.8	JUL
II. Output, Income and Sales						
17. REAL GNP GROWTH RATE	%	230	2.4	5.6	4.2	Q3
III. Employment and Unemployment						
23. EMPLOYMENT TO POPULATION RATIO	%	70	1.7	3.0	5.0	SEP
28. EMPLOYMENT DIFFUSION INDEX, 186 INDUS.	% RISING	70	51.0	60.5	45.1	SEP
29. UNEMPL. SEVERITY INDEX WEEKS PER 100 IN	LABOR FORCE	70	-56.4	3.9	-111.4	SEP
30. UNEMPLOYMENT RATE: TOTAL	%	70	-2.9	-0.9	-5.2	SEP
31. UNEMPLOYMENT RATE: INSURED	%	70	-4.0	-2.8	-2.9	SEP
33. SHORT-DURATION UNEMPLOYMENT RATE	%	70	-1.7	-0.8	-2.5	SEP
34. LAYOFF RATE UNDER 5 WEEKS (TIMES 10)	%	70	-3.4	-3.1	-5.2	SEP
35. PART-TIME EMPLOYMENT RATIO	%	70	2.6	0.1	1.2	SEP
IV. Investment Commitments and Inventories						
42. INVENTORY/SALES RATIO	%	68	-5.3	-12.7	-17.7	JUL
43. CHANGE IN INVENTORIES ON HAND & ON ORDER	BIL. 82$.	68	63.8	51.9	48.3	JUL
V. Productivity, Wages, Costs, Prices and Profits						
44. OUTPUT PER HOUR, GROWTH RATE	%	220	-0.7	0.8	-0.1	Q2
45. UNIT LABOR COSTS, GROWTH RATE	%	220	3.7	-0.8	-1.9	Q2
46. HOURLY COMPENSATION, GROWTH RATE	%	220	3.1	-0.2	-2.0	Q2
47. REAL HOURLY COMPENSATION, GROWTH RATE	%	220	0.9	-1.2	-2.0	Q2
48. SELLING PRICE INDEX, GROWTH RATE	%	220	3.4	-3.9	-2.0	Q2
49. GROWTH IN PRICES MINUS GROWTH IN COSTS	% POINTS	220	-0.3	-3.1	-0.1	Q2
50. CORPORATE PROFIT MARGIN	%	220	3.3	-1.5	2.5	Q2
51. PRICE/LABOR COST RATIO	1977=100	220	4.0	-1.3	3.3	Q2
55. CONSUMER PRICE INDEX, GROWTH RATE	%	70	1.9	1.3	0.4	SEP
57. INDUSTRIAL MAT. PRICE INDEX, GROWTH RATE	%	70	-5.1	12.0	10.0	SEP
58. IMPORT PRICES EXCL. FUELS, GROWTH RATE	%	70	4.8	-8.1	6.7	Q3(SEP)
59. ANTICIPATED SELLING PRICES (D&B SURVEY)	% RISING	70	20.0	13.3	3.3	Q3(SEP)
VI. Money, Credit, Interest Rates and Stock Prices						
60. BUSINESS & CONSUMER DEBT, GROWTH RATE	%	69	-1.0	0.9	9.2	AUG
61. FEDERAL DEBT, GROWTH RATE	%	70	1.8	0.7	-10.8	SEP
62. TOTAL DEBT, GROWTH RATE	%	69	0.8	0.9	3.6	AUG
63. MONEY SUPPLY (M1), GROWTH RATE	%	70	-0.1	4.0	-5.4	SEP
64. MONEY SUPPLY (M2), GROWTH RATE	%	70	-2.4	1.4	-4.3	SEP
65. TREASURY BILL RATE (3-MONTH)	%	70	2.6	9.5	-0.7	SEP
66. NEW CORPORATE BOND YIELD (AA)	%	70	1.5	4.6	-2.2	SEP

HOW TO READ CHARTS

ACTUAL LEVEL CHARTS

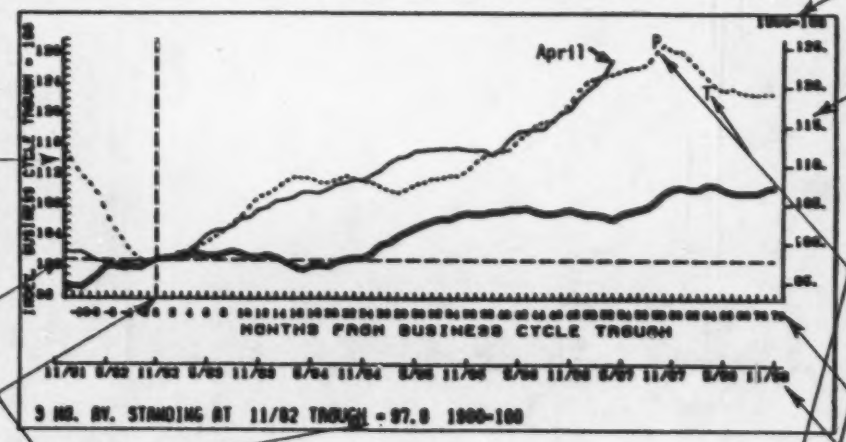
TITLE: If the title does not say "growth rate," then the chart is for the actual level, rather than the growth rate.

LEFT-HAND SCALE measures movements of both current and past expansions, relative to their standing at the respective reference troughs (i.e. for each expansion the standing at the trough equals 100). This is the common vertical scale along which the expansions are compared.

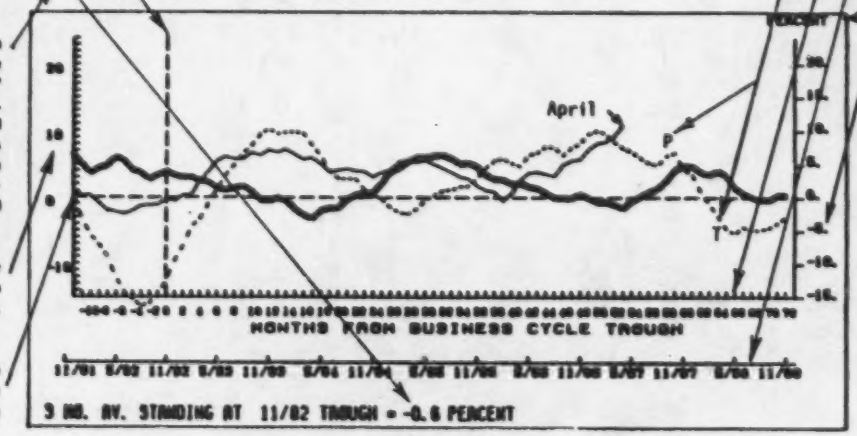
HORIZONTAL DOTTED LINE shows level at reference trough (100) for current and past expansions.

VERTICAL DOTTED LINE represents reference trough dates for current and past expansions, which are all aligned so that the reference trough dates are positioned on the vertical line.

STANDING AT THE TROUGH for the current expansion (when the expansion began) is typically calculated as the 3-month average centered on the trough month.



GROWTH RATE CHARTS


15. EIGHT-COUNTRY LEADING INDEX, GROWTH RATE
April
P
T
MONTHS FROM BUSINESS CYCLE TROUGH
3 MO. AV. STANDING AT 11/82 TROUGH = -0.6 PERCENT

TITLE: If the title says "growth rate," then the chart is for the "6-month smoothed growth rate," rather than the actual level. These growth rates are obtained by dividing the current month's figure by the average for the twelve preceding months, and expressing the result as a compound annual rate.

LEFT-HAND SCALE, (same as the right-hand scale) shows growth rates in percent for both current and past expansions.

HORIZONTAL DOTTED LINE is drawn typically at 0% growth rate, a natural reference level for both current and past expansions.

UNIT for right-hand scale, which refers only to the current expansion.

RIGHT-HAND SCALE refers only to current expansion. It is a transformation of the left hand scale to show the current expansion in original units rather than with trough standing = 100.

P indicates the January 1980 PEAK, marking the start of the 1980 recession, which lasted till the July 1980 TROUGH, indicated by T.

HORIZONTAL SCALE measures months from business cycle trough for both the current and the past expansions. This is the common time scale along which the recoveries are compared.

ACTUAL DATES, referring only to the current expansion.

UNIT for both scales (percent), referring to both current and past growth rates in expansions.

RIGHT-HAND SCALE, which refers to both current and past expansions.

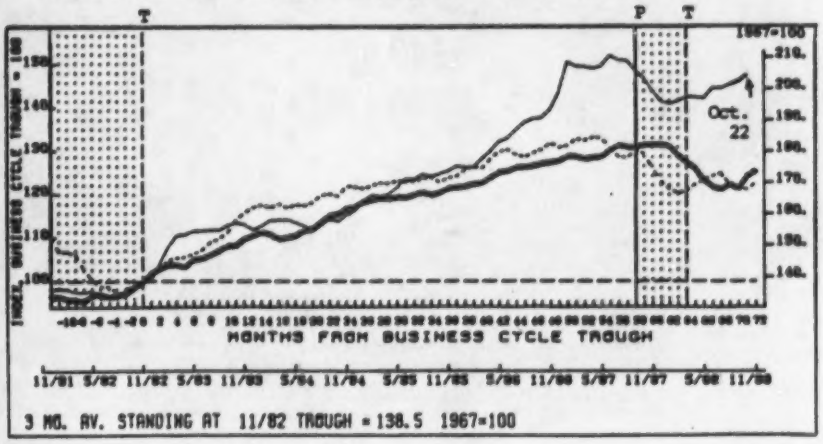
——— THICK LINE indicates 1961-69 expansion (from February 1961) which continued for 106 months.

---------- DOTTED LINE indicates the 1975-80 expansion (from Mar. 1975), which ended after 58 months, and the subsequent recession (from January 1980 to July 1980).

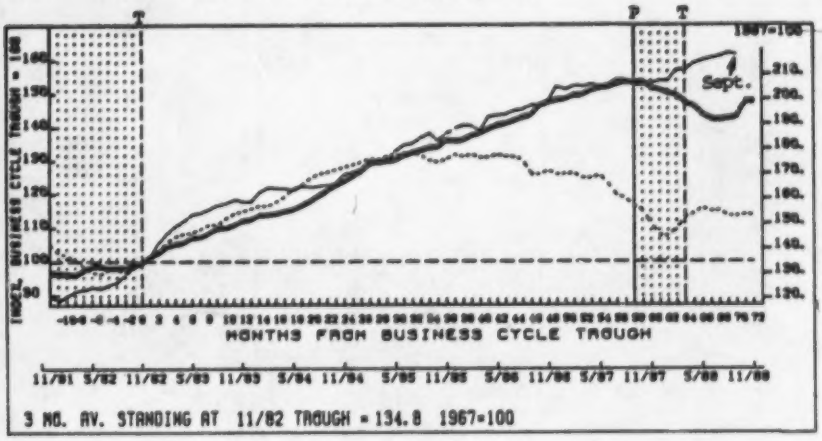
——— THIN LINE indicates the current expansion (business cycle trough: November 1982 or IV Q 1982).

COMPOSITE INDEXES

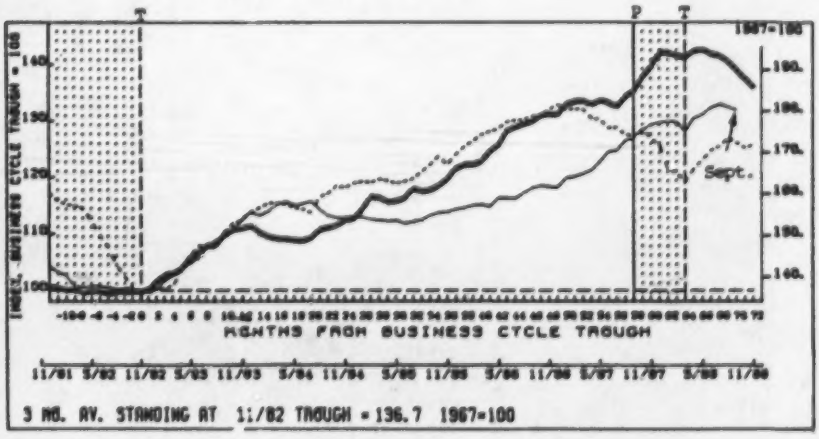
1. BUSINESS WEEK LEADING INDEX (CIBCR)



1A. LONG-LEADING INDEX (CIBCR)

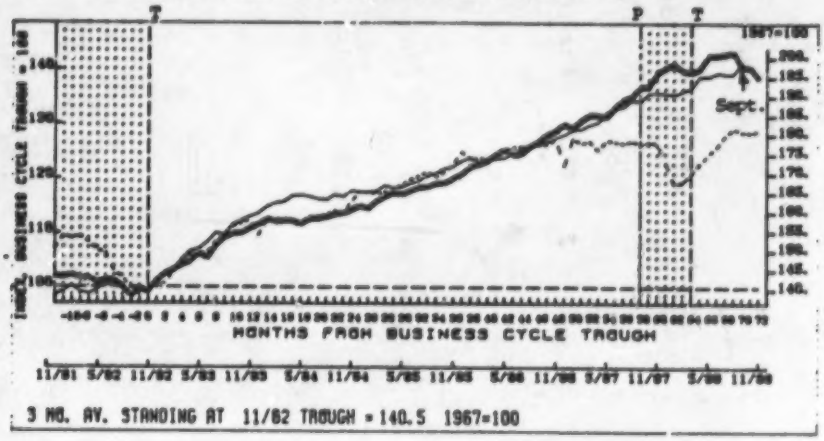


1B. N.A.P.M. LEADING INDEX

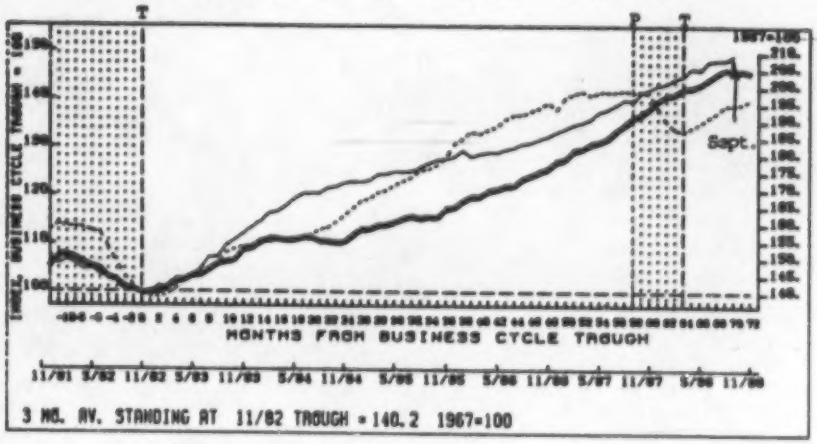


COMPOSITE INDEXES, continued

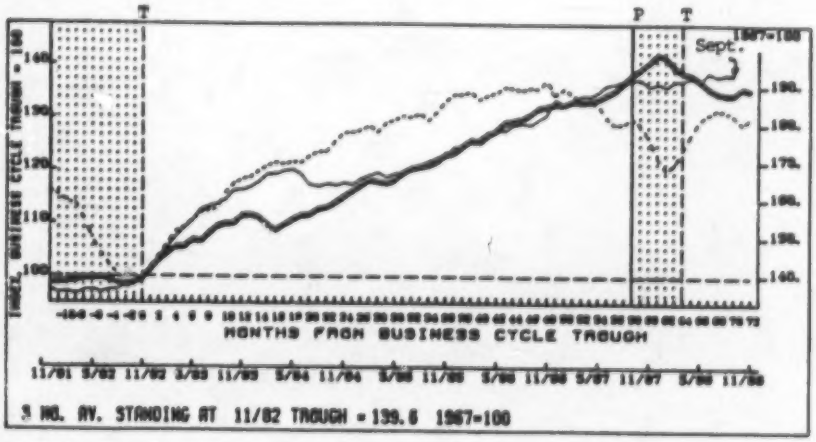
2. LEADING EMPLOYMENT INDEX (CIBCR)



3. COINCIDENT EMPLOYMENT INDEX (CIBCR)

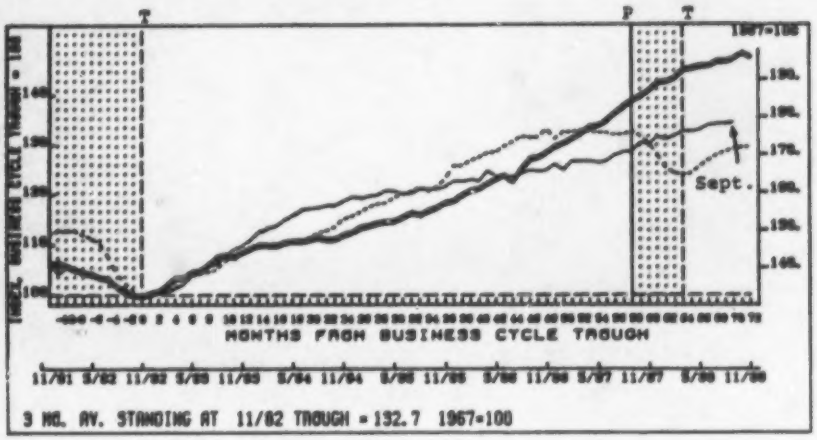


4. LEADING INDEX (BCD)



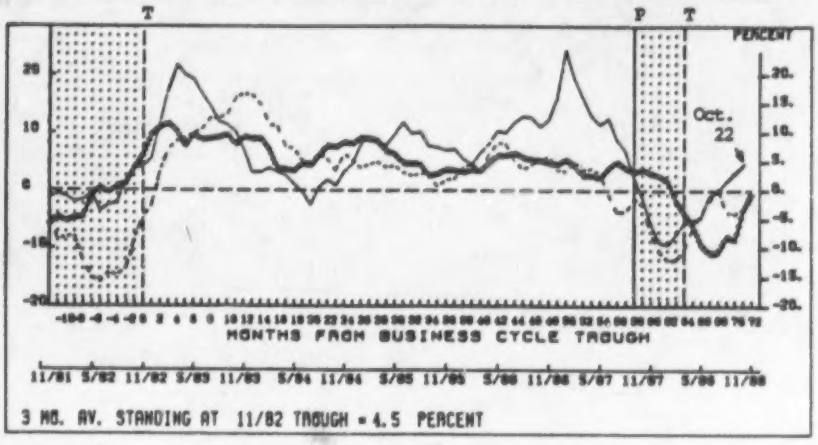
COMPOSITE INDEXES, continued

5. COINCIDENT INDEX (BCD)



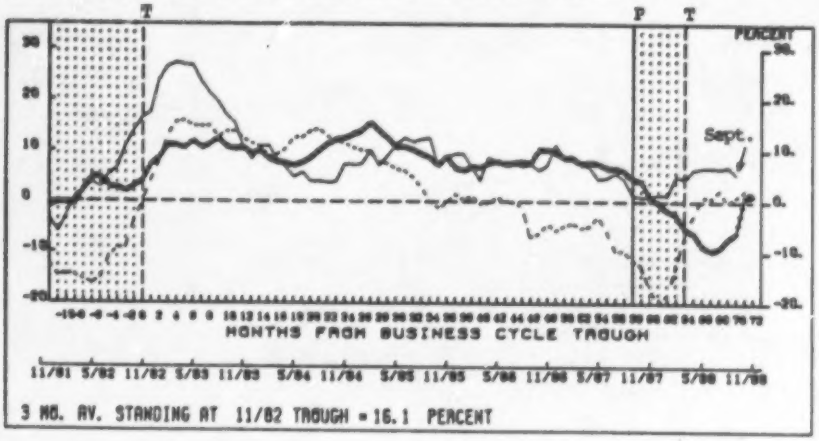
COMPOSITE INDEX GROWTH RATES

6. BUSINESS WEEK LEADING INDEX, GROWTH RATE



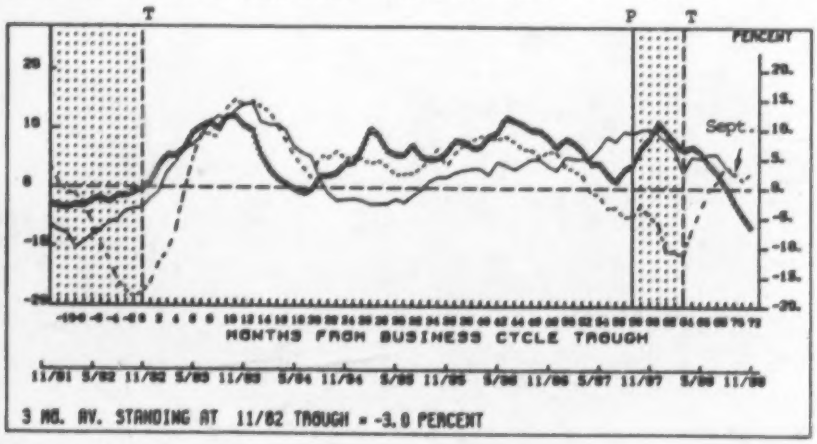
Recuperating nicely

6A. LONG-LEADING INDEX, GROWTH RATE



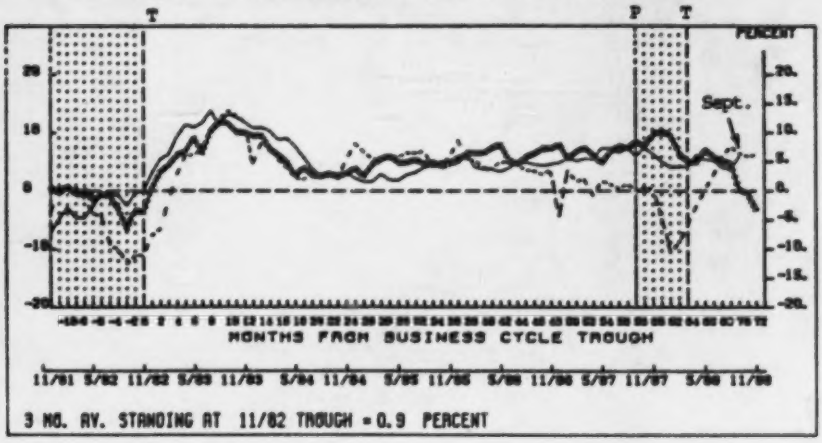
Healthy growth

6B. N.A.P.M. LEADING INDEX, GROWTH RATE



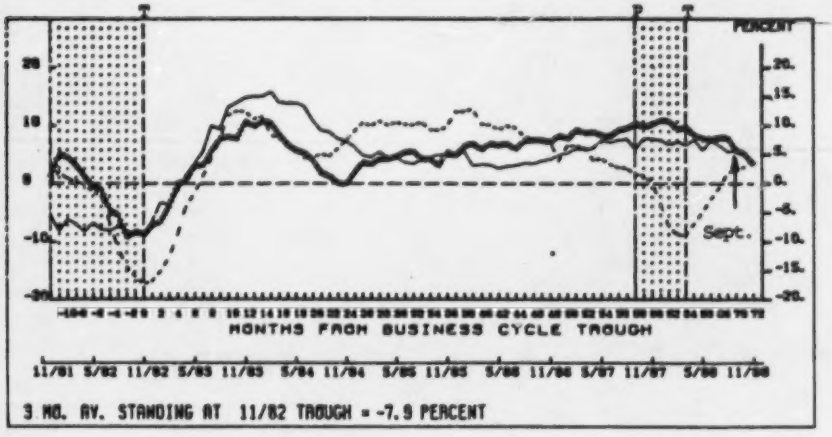
COMPOSITE INDEX GROWTH RATES, continued

7. LEADING EMPLOYMENT INDEX, GROWTH RATE

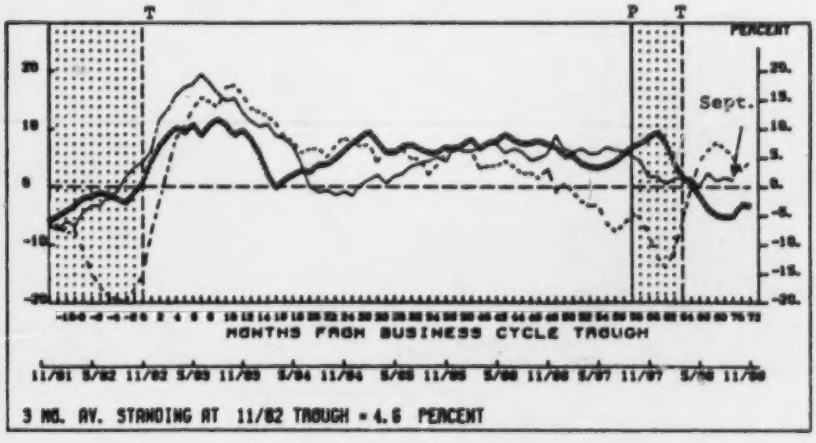


Job creation still at work.

8. COINCIDENT EMPLOYMENT INDEX, GROWTH RATE (CIBCR)

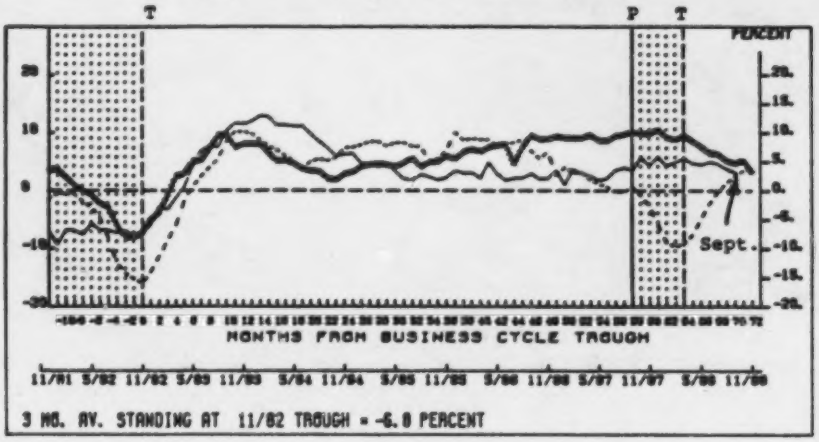


9. LEADING INDEX, GROWTH RATE (BCD)



COMPOSITE INDEX GROWTH RATES, continued

10. COINCIDENT INDEX, GROWTH RATE (BCD)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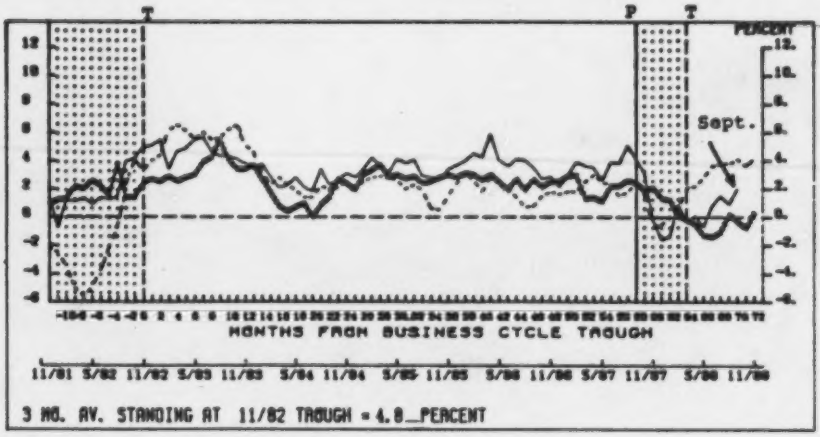
Sept.
MONTHS FROM BUSINESS CYCLE TROUGH
11/81 5/82 11/82 5/83 11/83 5/84 11/84 5/85 11/85 5/86 11/86 5/87 11/87 5/88 11/88
3 MO. AV. STANDING AT 11/82 TROUGH = -6.8 PERCENT

10A. SERVICES LEADING INDEX, GROWTH RATE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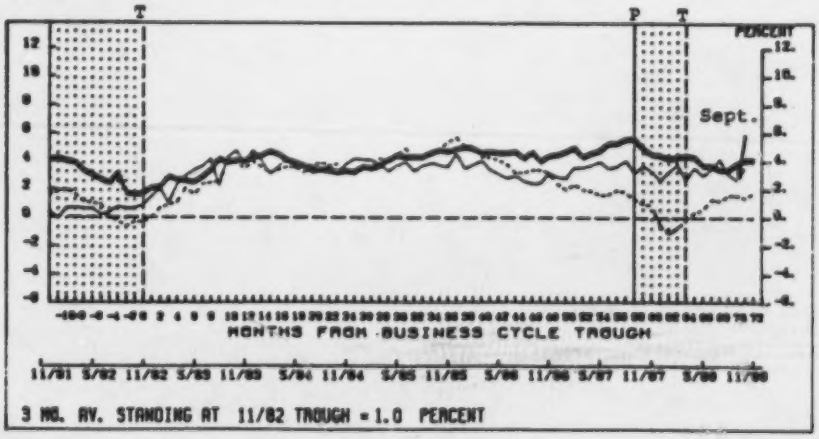
MONTHS FROM BUSINESS CYCLE TROUGH
11/81 5/82 11/82 5/83 11/83 5/84 11/84 5/85 11/85 5/86 11/86 5/87 11/87 5/88 11/88
3 MO. AV. STANDING AT 11/82 TROUGH = 4.8 PERCENT

Is the slowdown over?

10B. SERVICES COINCIDENT INDEX, GROWTH RATE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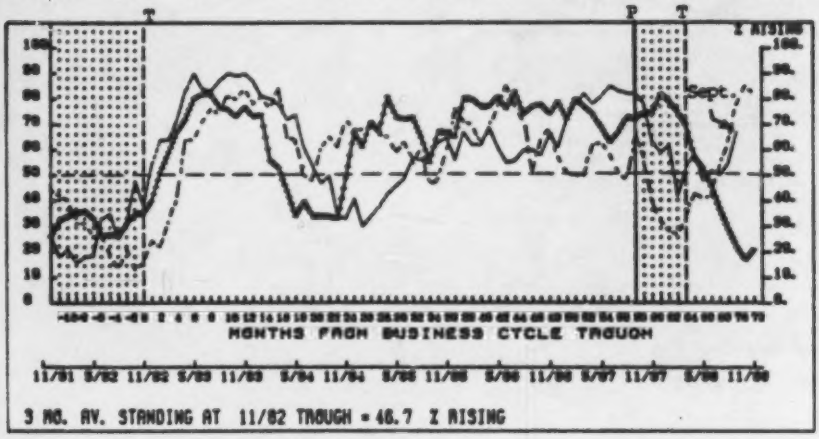
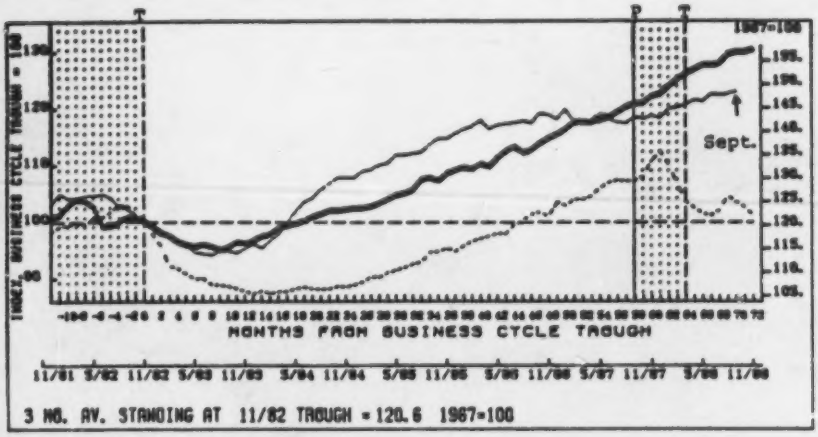
MONTHS FROM BUSINESS CYCLE TROUGH
11/81 5/82 11/82 5/83 11/83 5/84 11/84 5/85 11/85 5/86 11/86 5/87 11/87 5/88 11/88
3 MO. AV. STANDING AT 11/82 TROUGH = 1.0 PERCENT

OTHER COMPOSITE INDEXES

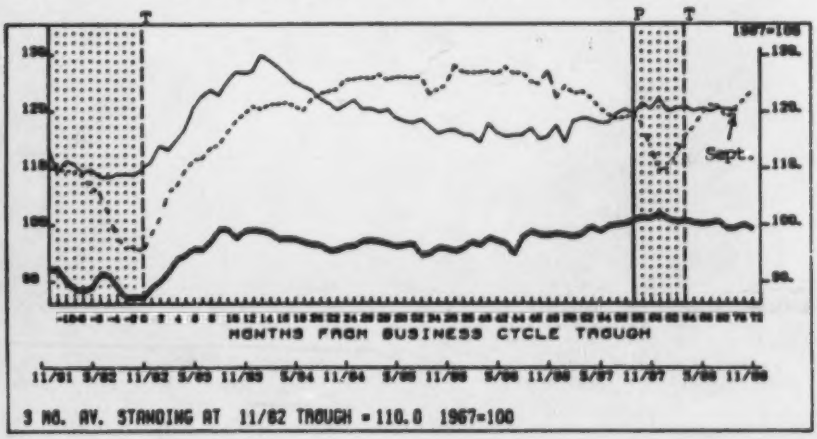
11. DIFFUSION INDEX OF LEADING INDICATORS (CIBCR)



12. LAGGING INDEX (BCD)

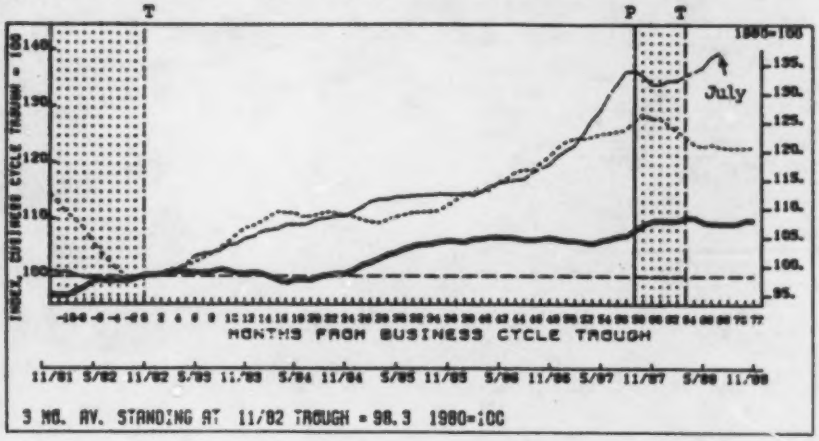


13. RATIO, COINCIDENT TO LAGGING INDEX

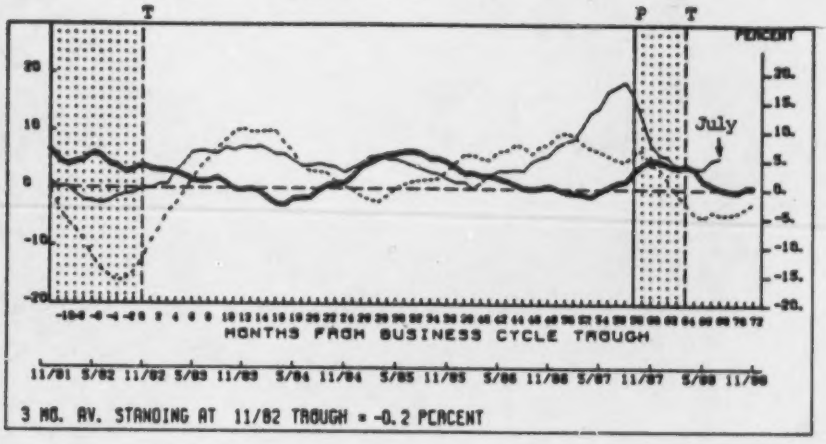


OTHER COMPOSITE INDEXES

14. NINE-COUNTRY LEADING INDEX (CIBCR)*



15. NINE-COUNTRY LEADING INDEX, GROWTH RATE

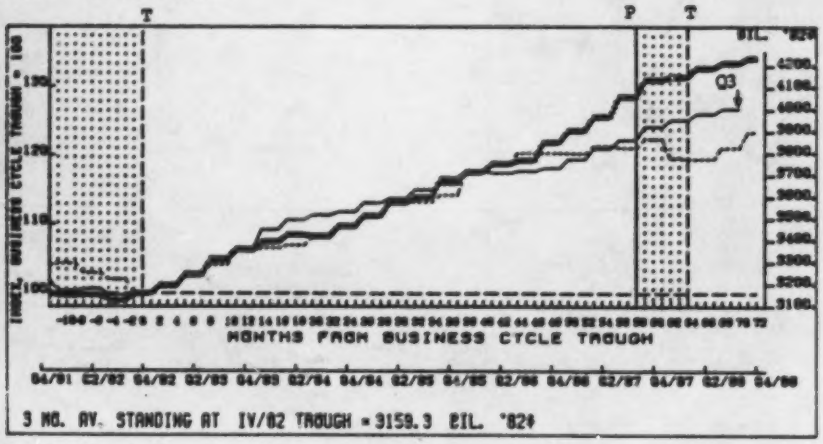


Prospects for U. S. exports good, but not like last year.

*Canada, United Kingdom, West Germany, France, Italy, Japan, Australia, Taiwan, R.O.C. and Korea, R.O.K.

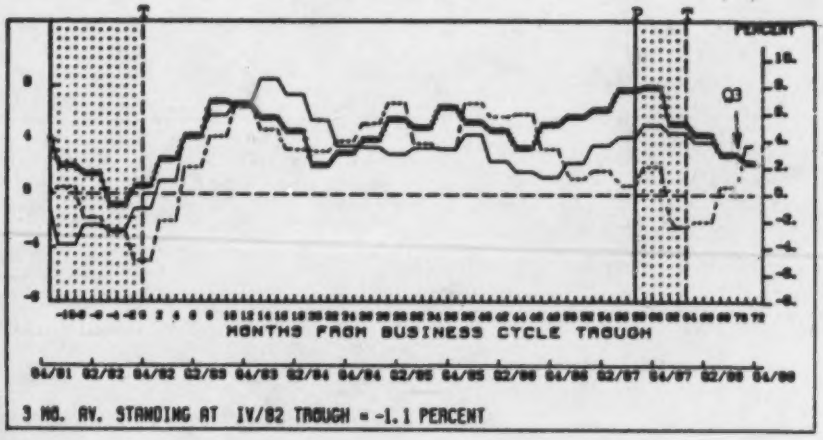
OUTPUT, INCOME AND SALES

16. REAL GNP



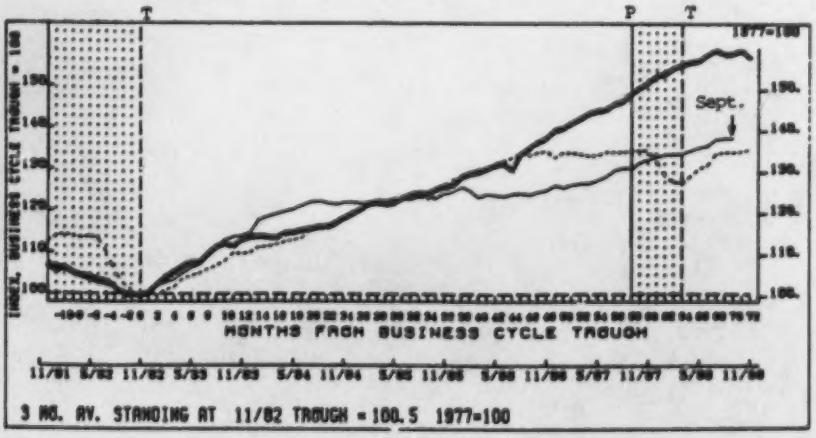
3 MO. AV. STANDING AT IV/82 TROUGH = 3159.3 BIL. '82$

17. REAL GNP, GROWTH RATE



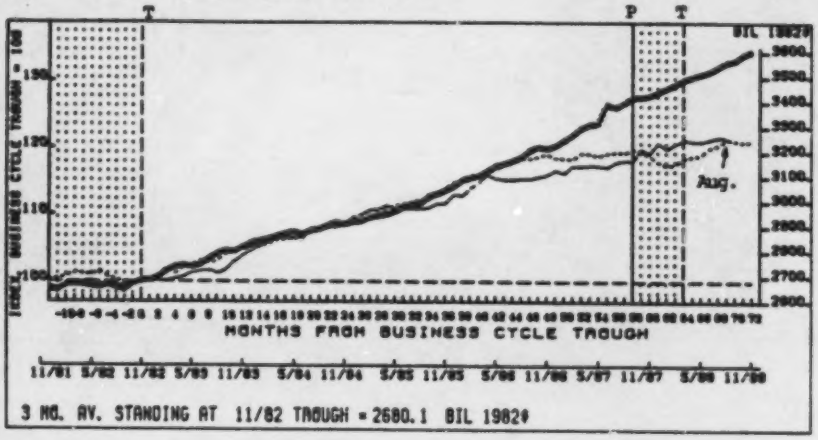
3 MO. AV. STANDING AT IV/82 TROUGH = -1.1 PERCENT

18. INDUSTRIAL PRODUCTION INDEX

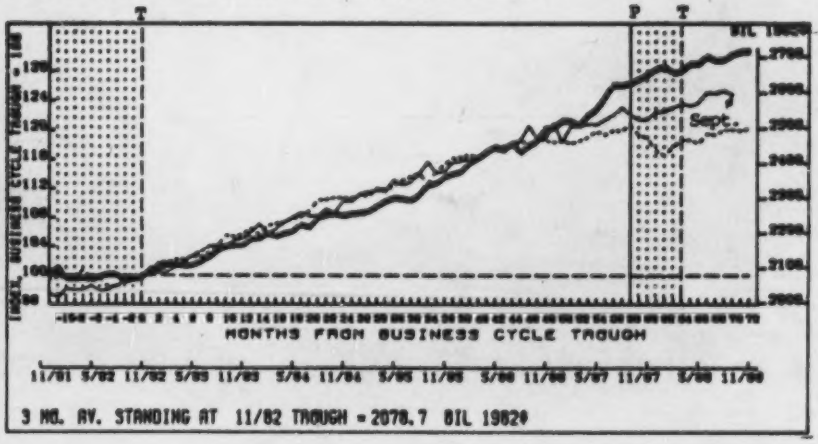


3 MO. AV. STANDING AT 11/82 TROUGH = 100.5 1977=100

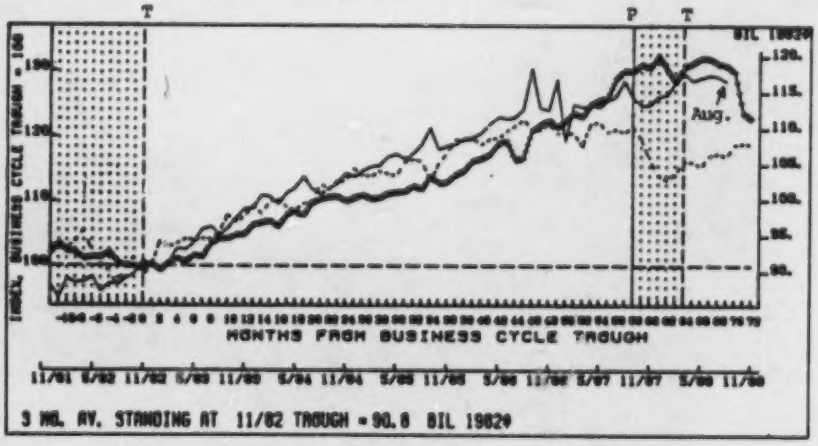
19. REAL PERSONAL INCOME



20. REAL CONSUMER EXPENDITURES

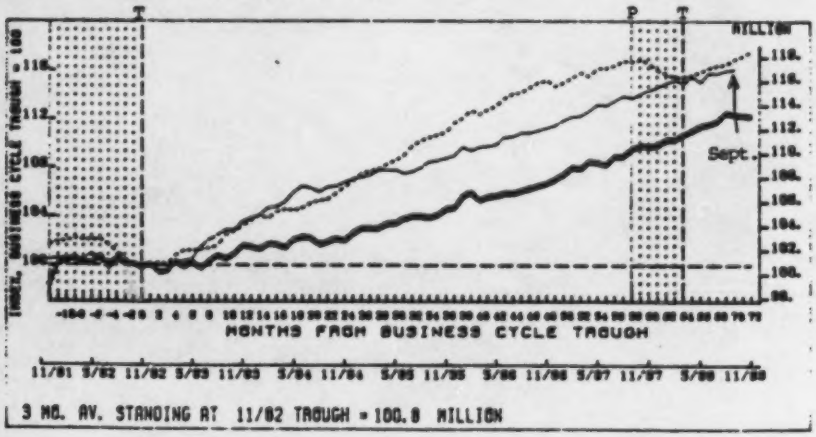


21. REAL RETAIL SALES



EMPLOYMENT

22. TOTAL EMPLOYMENT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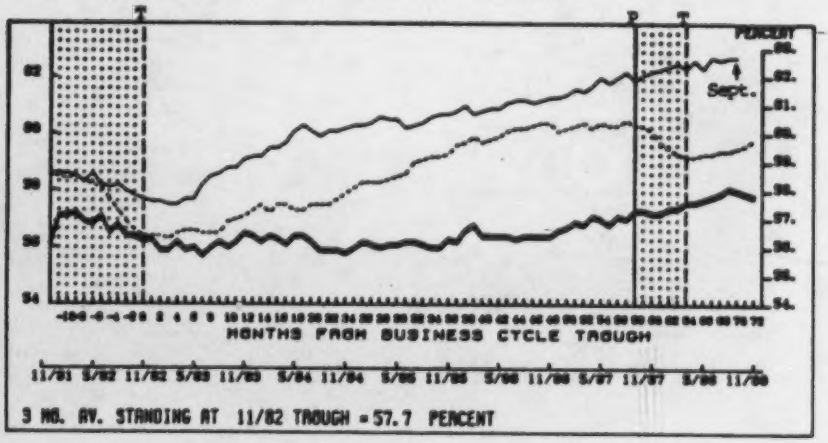
MONTHS FROM BUSINESS CYCLE TROUGH
11/81 5/82 11/82 5/83 11/83 5/84 11/84 5/85 11/85 5/86 11/86 5/87 11/87 5/88 11/88
3 MO. AV. STANDING AT 11/82 TROUGH = 100.8 MILLION

23. EMPLOYMENT TO POPULATION RATIO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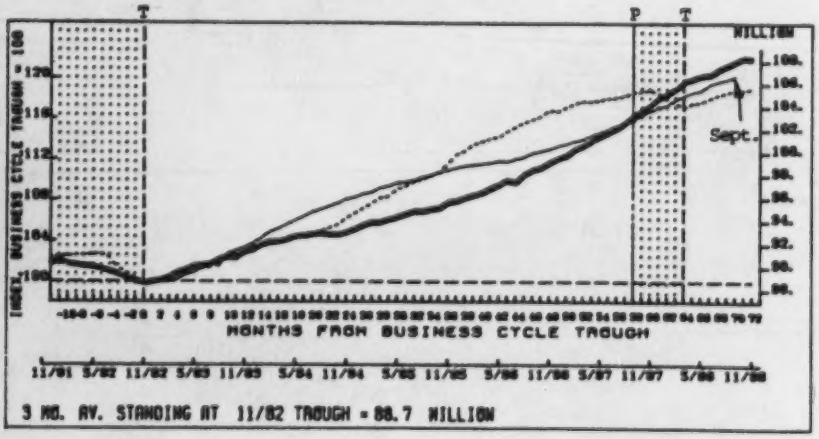
MONTHS FROM BUSINESS CYCLE TROUGH
11/81 5/82 11/82 5/83 11/83 5/84 11/84 5/85 11/85 5/86 11/86 5/87 11/87 5/88 11/88
3 MO. AV. STANDING AT 11/82 TROUGH = 57.7 PERCENT

24. NONFARM EMPLOYMENT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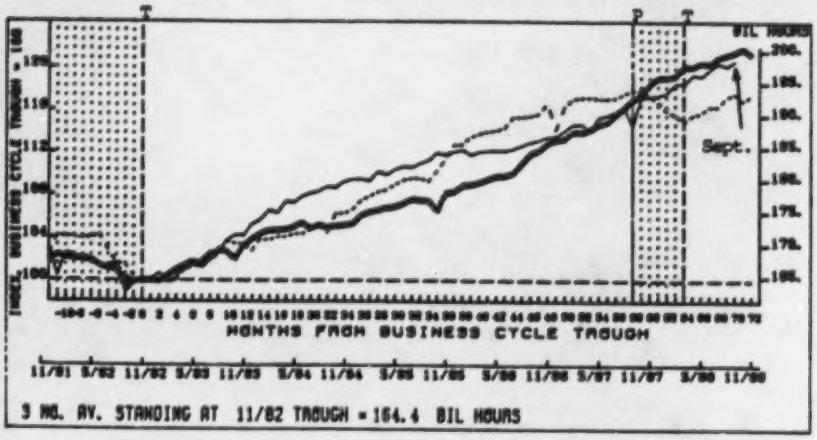
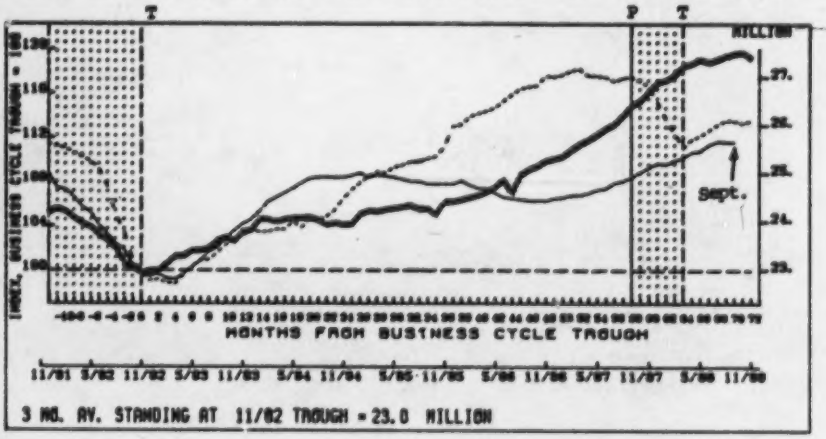
MONTHS FROM BUSINESS CYCLE TROUGH
11/81 5/82 11/82 5/83 11/83 5/84 11/84 5/85 11/85 5/86 11/86 5/87 11/87 5/88 11/88
3 MO. AV. STANDING AT 11/82 TROUGH = 88.7 MILLION

25. NONFARM EMPLOYEE HOURS

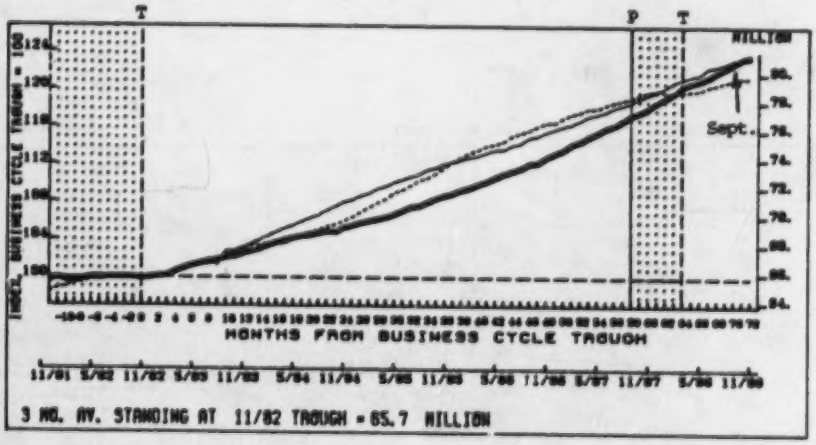


26. EMPLOYMENT IN GOODS-PRODUCING INDUSTRIES



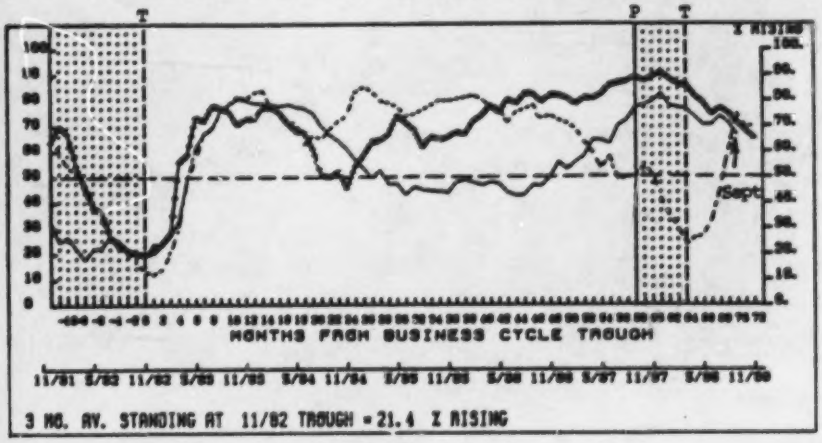
Tracking the
1966-67 slowdown

27. EMPLOYMENT IN SERVICE-PRODUCING INDUSTRIES

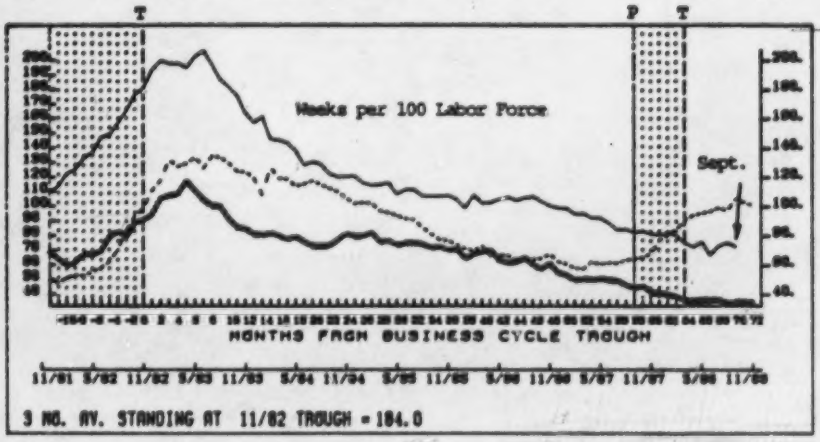


UNEMPLOYMENT

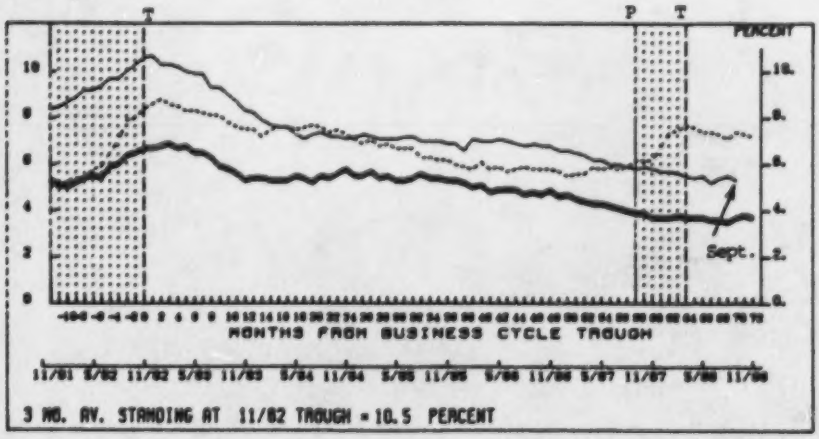
28. EMPLOYMENT DIFFUSION INDEX, 186 INDUSTRIES



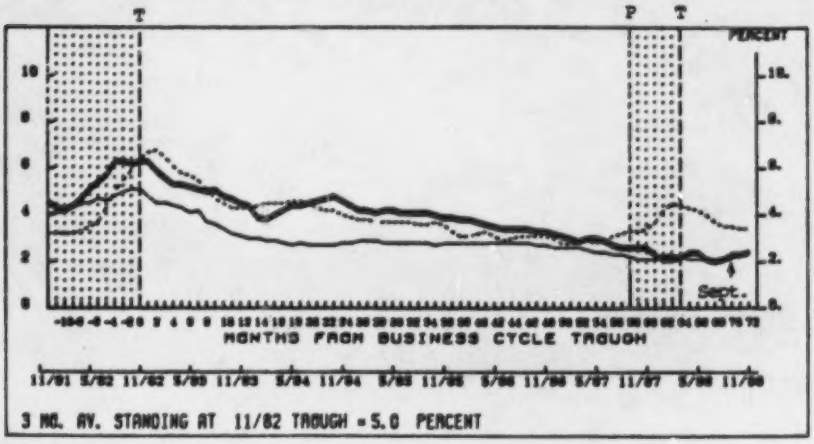
29. UNEMPLOYMENT SEVERITY INDEX



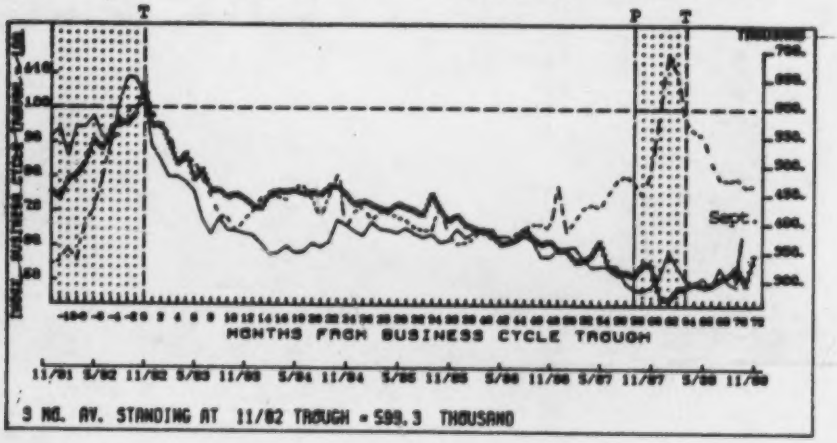
30. UNEMPLOYMENT RATE: TOTAL



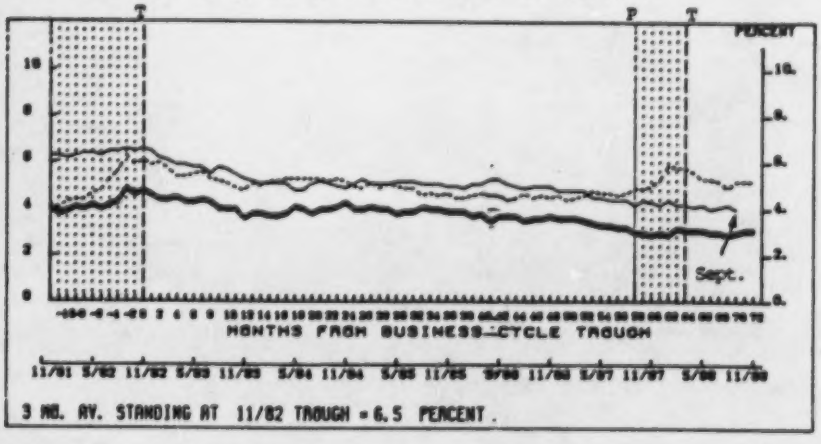
31. UNEMPLOYMENT RATE: INSURED



32. INITIAL CLAIMS, UNEMPLOYMENT INSURANCE

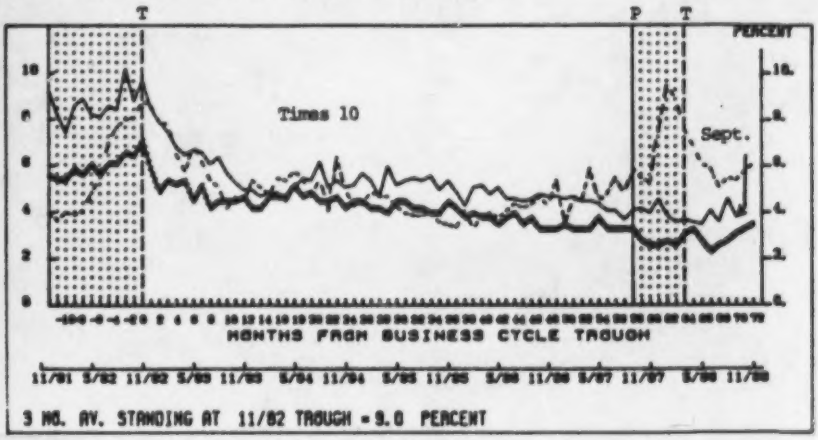


33. SHORT-DURATION UNEMPLOYMENT RATE

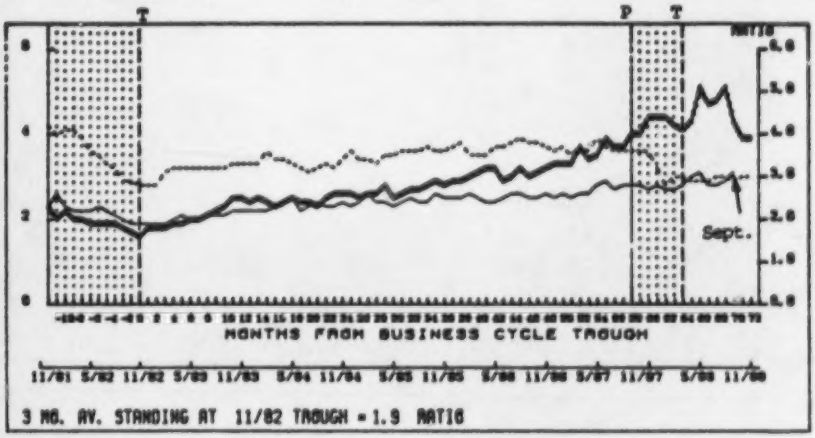


OTHER LEADING EMPLOYMENT INDICATORS

34. LAYOFF RATE UNDER 5 WEEKS

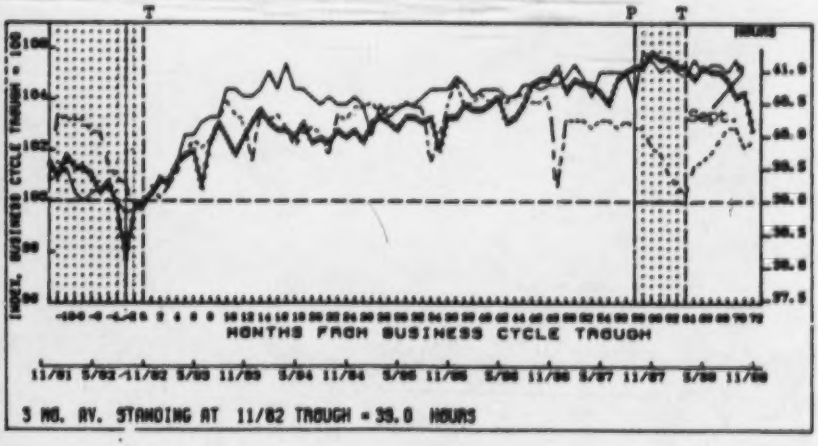


35. VOLUNTARY TO INVOLUNTARY PART-TIME EMPLOYMENT RATIO



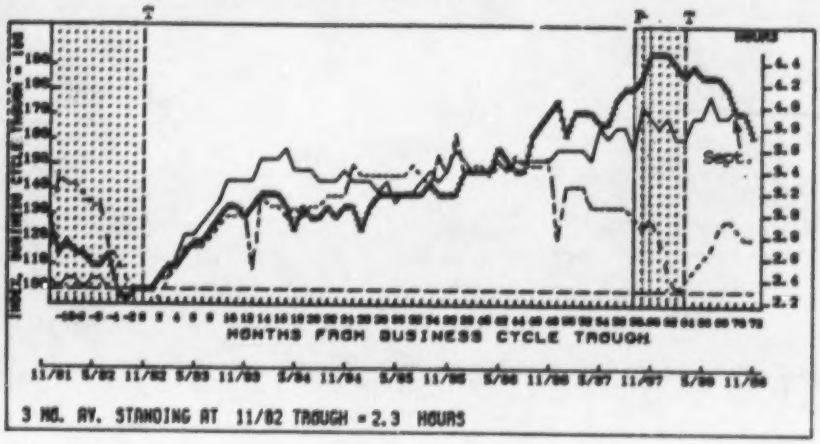
Part-time work is largely voluntary

36. AVERAGE WORKWEEK, MANUFACTURING



OTHER LEADING EMPLOYMENT INDICATORS, continued

37. OVERTIME HOURS, MANUFACTURING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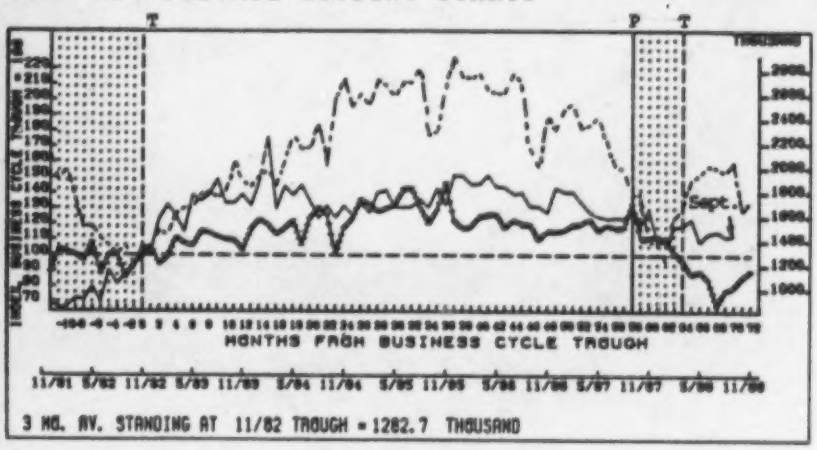
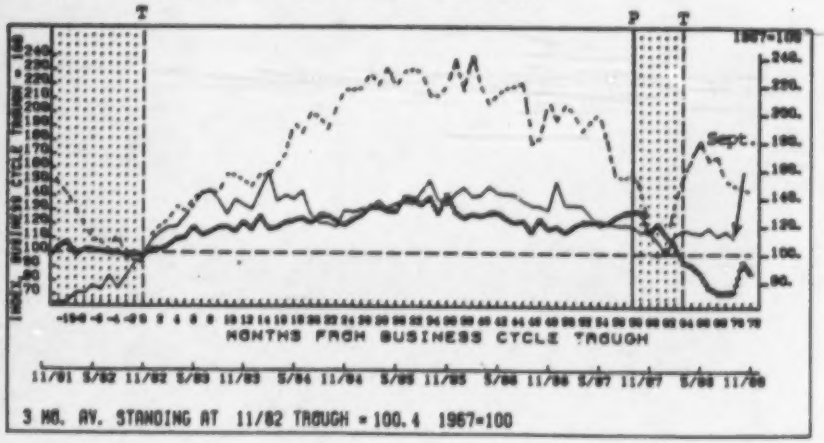
HOURS
Sept.
MONTHS FROM BUSINESS CYCLE TROUGH
11/81 5/82 11/82 5/83 11/83 5/84 11/84 5/85 11/85 5/86 11/86 5/87 11/87 5/88 11/88
3 MO. AV. STANDING AT 11/82 TROUGH = 2.3 HOURS

INVESTMENT COMMITMENTS AND INVENTORIES

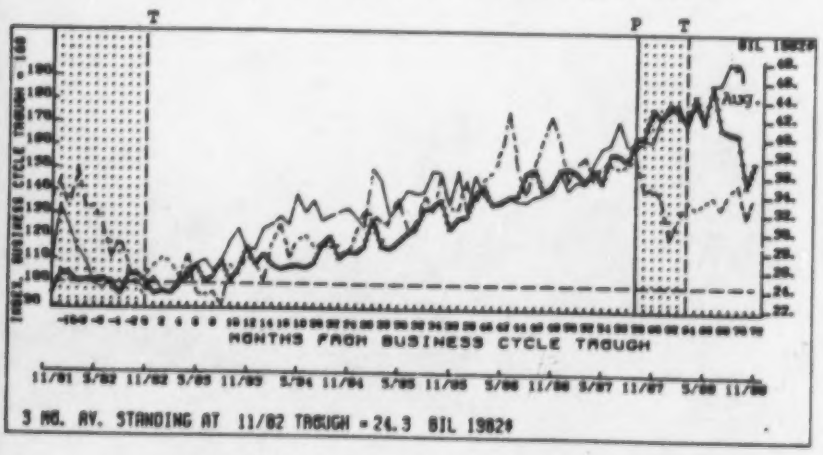
38. NEW PRIVATE HOUSING STARTS



39. NEW PRIVATE HOUSING PERMITS



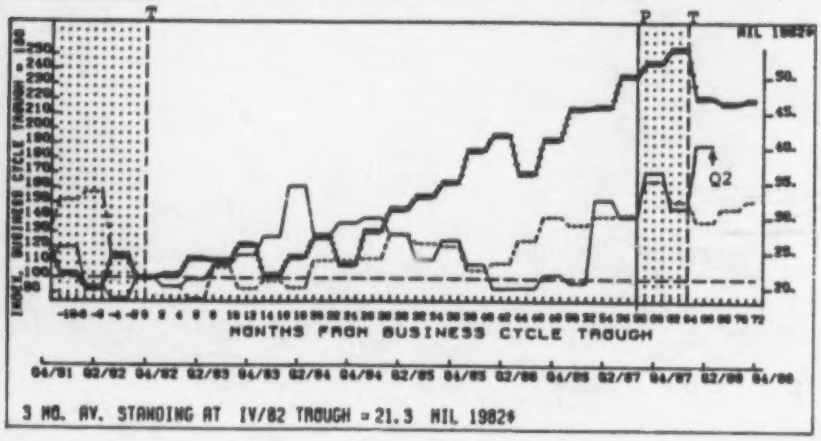
40. CONTRACTS & ORDERS, PLANT & EQUIPMENT



Investment commitments look strong here...

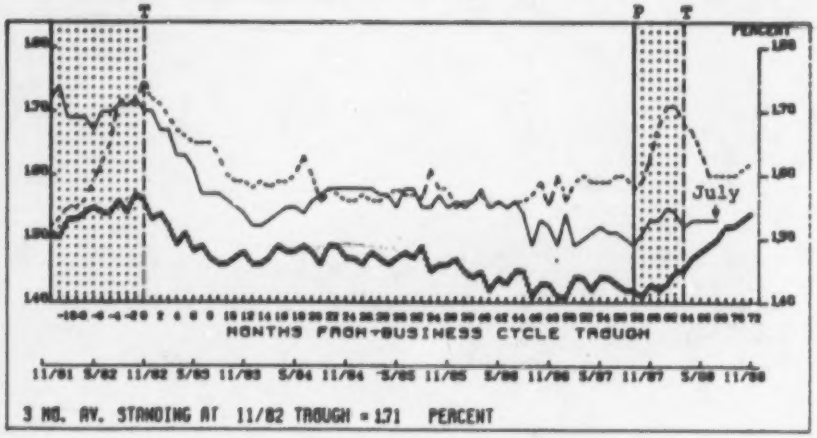
INVESTMENT COMMITMENTS AND INVENTORIES, continued

41. NEW CAPITAL APPROPRIATIONS, MANUFACTURING

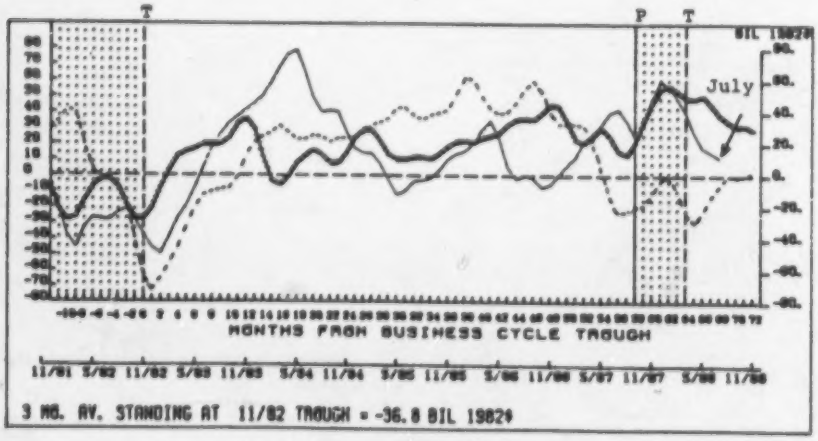


... and here

42. INVENTORY/SALES RATIO, MANUFACTURING AND TRADE

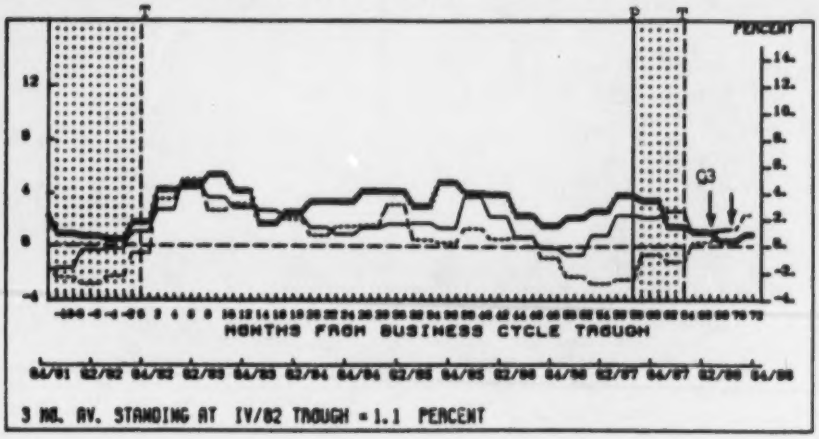


43. CHANGE IN INVENTORY ON HAND & ON ORDER

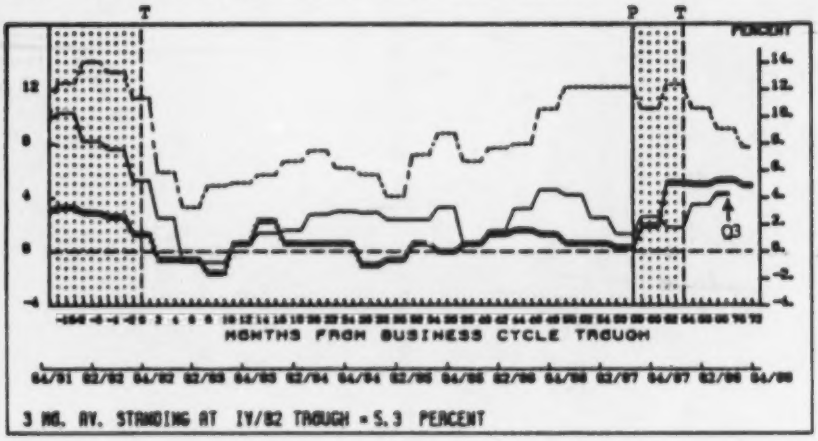


PRODUCTIVITY, WAGES, COSTS, PRICES AND PROFITS

44. OUTPUT PER HOUR, GROWTH RATE

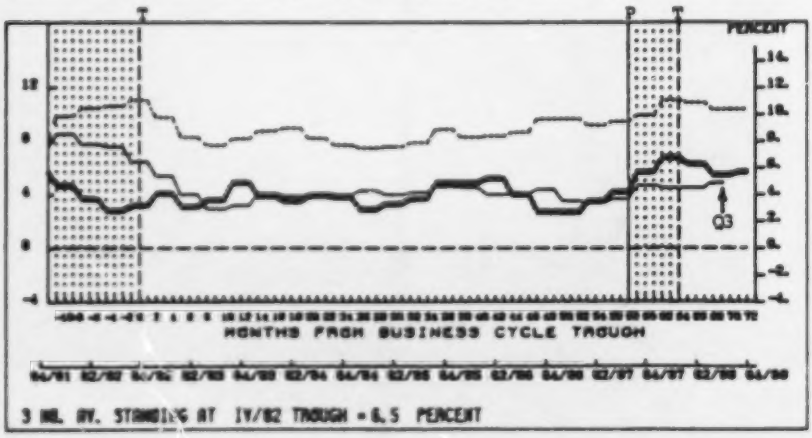


45. UNIT LABOR COSTS, GROWTH RATE

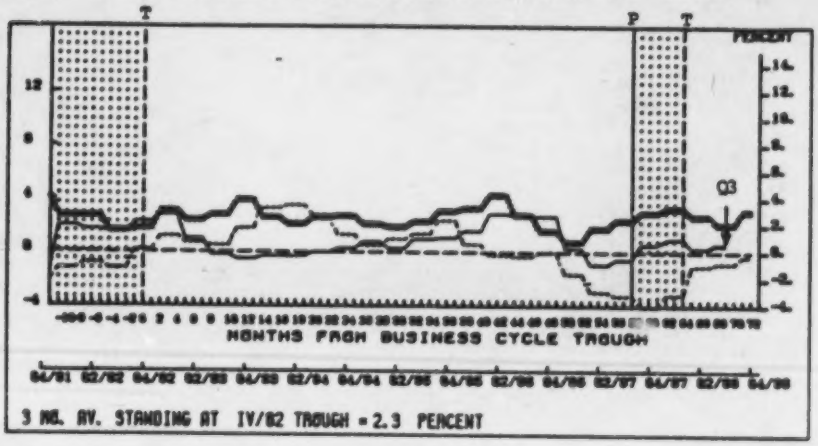


Inflation watchers, watch this trend!

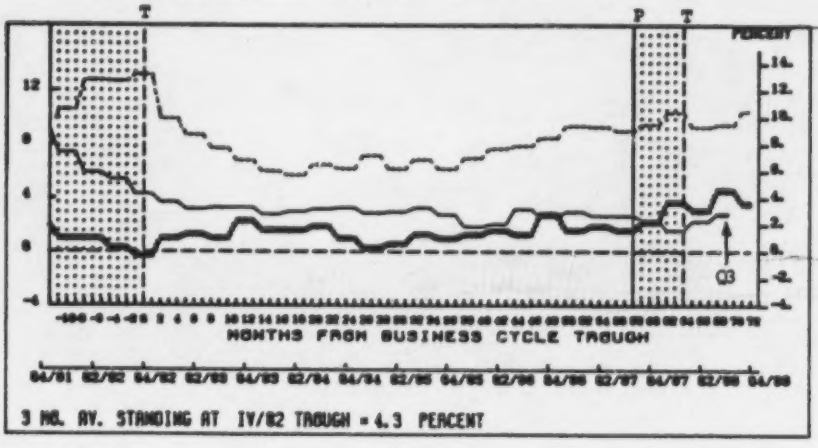
46. HOURLY COMPENSATION, GROWTH RATE



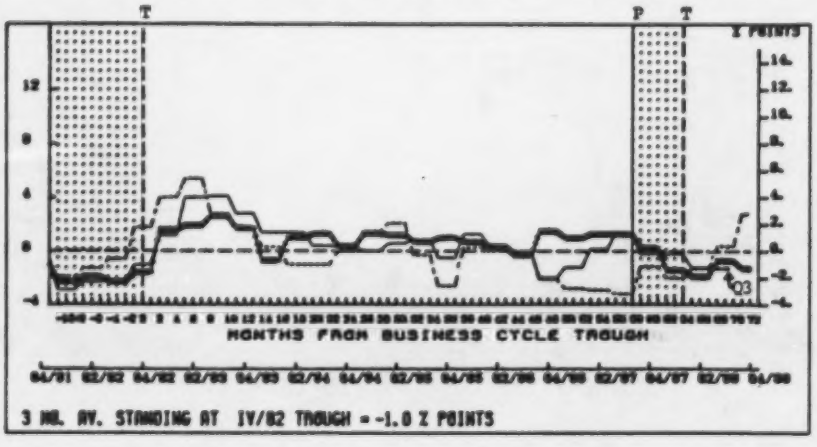
47. REAL HOURLY COMPENSATION, GROWTH RATE



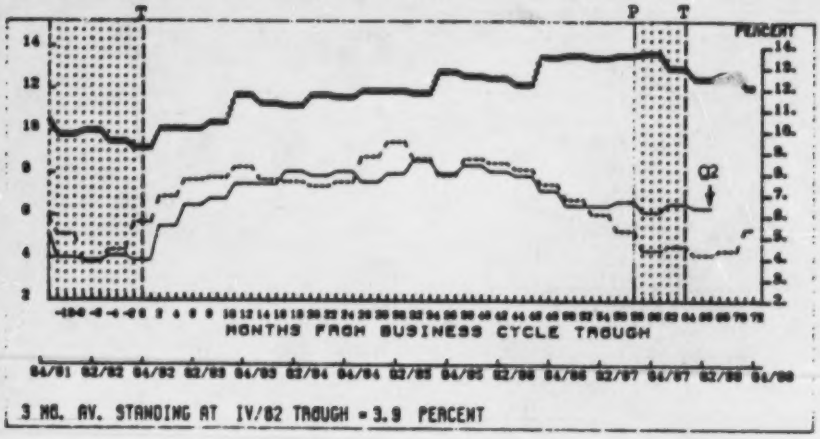
48. SELLING PRICE INDEX, GROWTH RATE



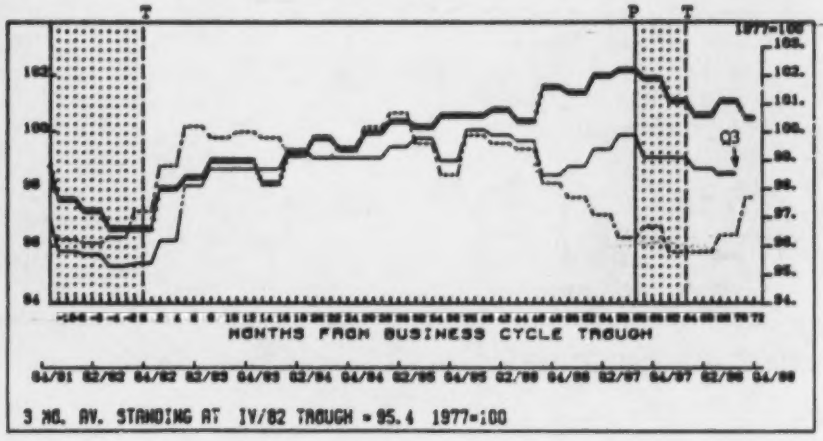
49. GROWTH RATE IN PRICES MINUS GROWTH RATE IN COSTS



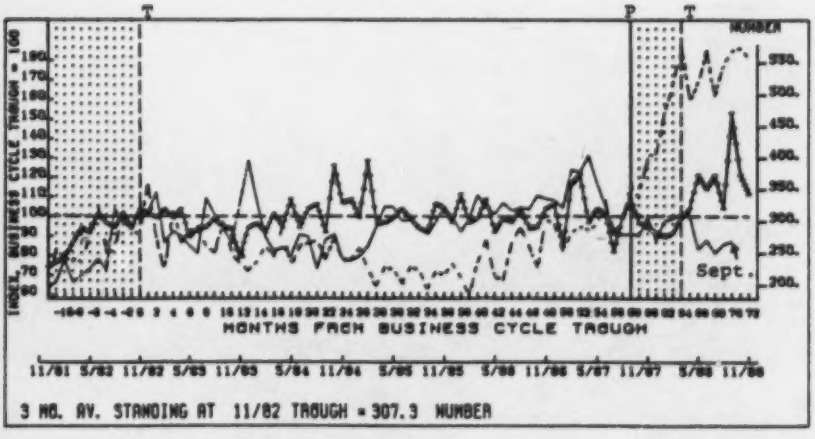
50. CORPORATE PROFIT MARGIN



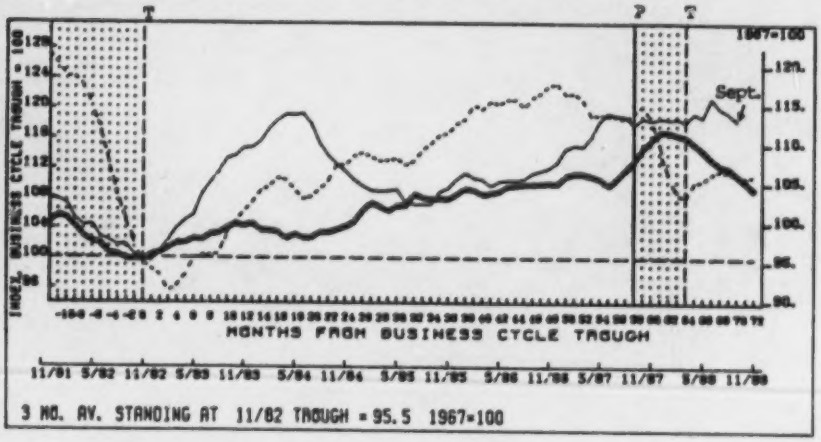
51. PRICE/LABOR COST RATIO



52. LARGE BUSINESS FAILURES

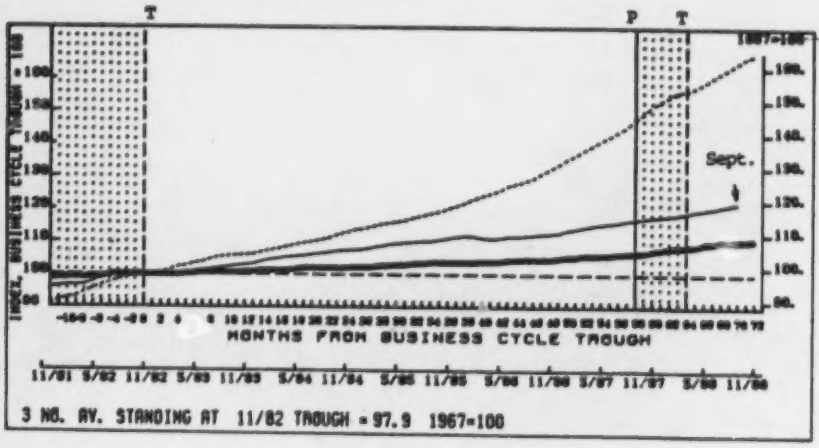


53. LEADING INDEX OF INFLATION (CIBCR)

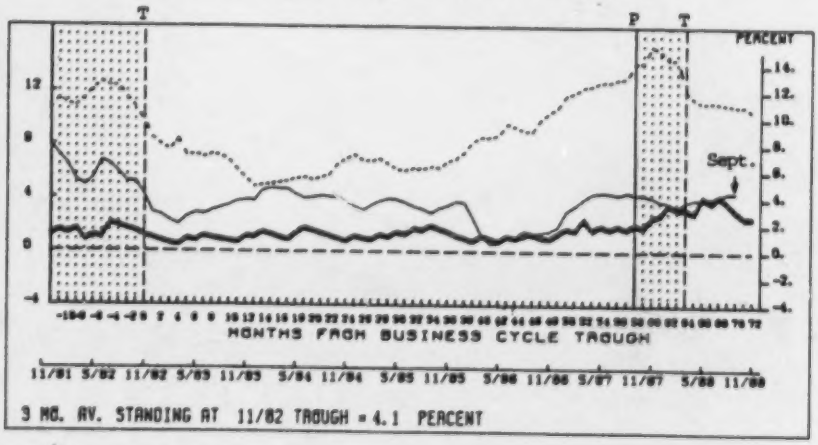

T
P
T
1967=100
Sept.
INDEX, BUSINESS CYCLE TROUGH 100
MONTHS FROM BUSINESS CYCLE TROUGH
11/81 5/82 11/82 5/83 11/83 5/84 11/84 5/85 11/85 5/86 11/86 5/87 11/87 5/88 11/88
3 MO. AV. STANDING AT 11/82 TROUGH = 95.5 1967=100

A high level, but not rising.

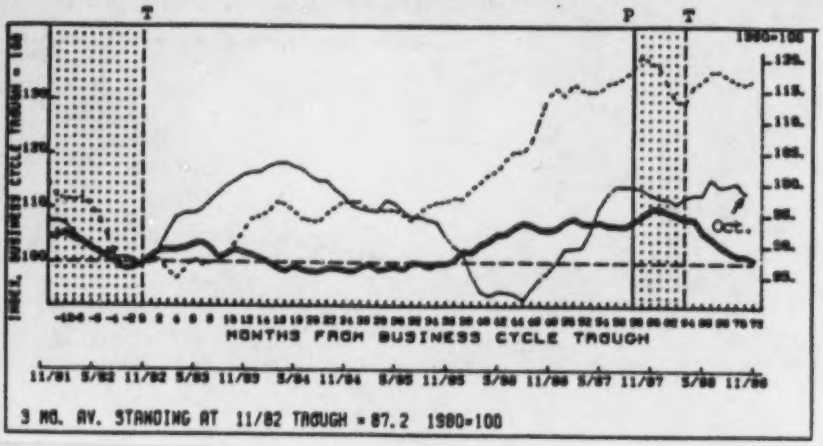
54. CONSUMER PRICE INDEX


T
P
T
1967=100
Sept.
INDEX, BUSINESS CYCLE TROUGH 100
MONTHS FROM BUSINESS CYCLE TROUGH
11/81 5/82 11/82 5/83 11/83 5/84 11/84 5/85 11/85 5/86 11/86 5/87 11/87 5/88 11/88
3 MO. AV. STANDING AT 11/82 TROUGH = 97.9 1967=100

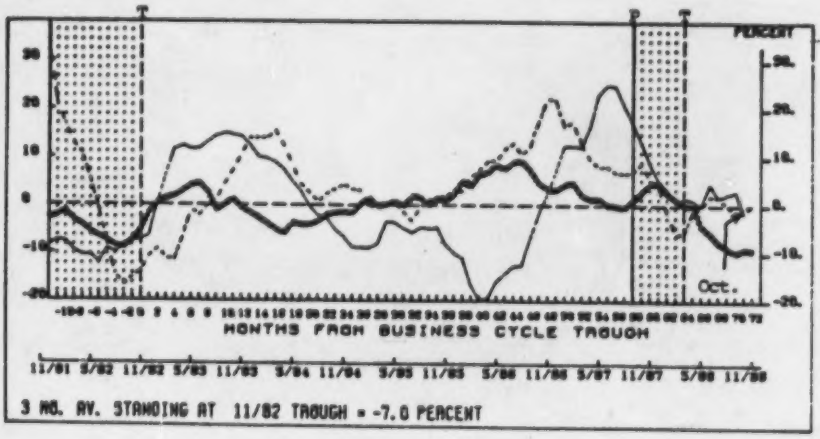
55. CONSUMER PRICE INDEX, GROWTH RATE


T
P
T
PERCENT
Sept.
MONTHS FROM BUSINESS CYCLE TROUGH
11/81 5/82 11/82 5/83 11/83 5/84 11/84 5/85 11/85 5/86 11/86 5/87 11/87 5/88 11/88
3 MO. AV. STANDING AT 11/82 TROUGH = 4.1 PERCENT

56. INDUSTRIAL MATERIALS PRICE INDEX

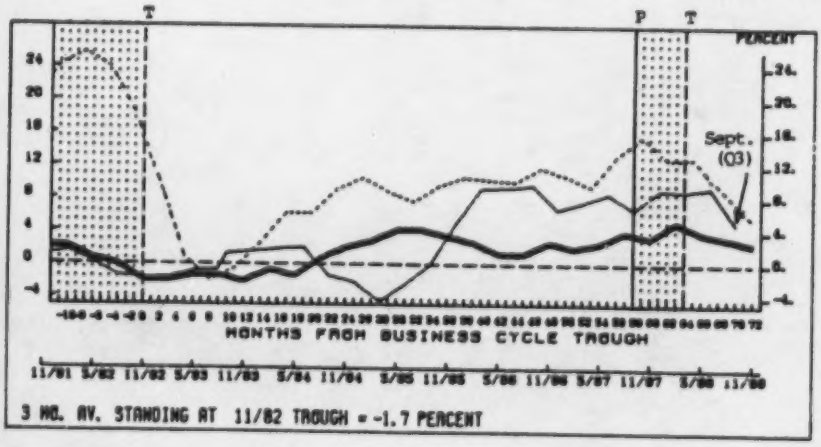


57. INDUSTRIAL MATERIALS PRICE INDEX, GROWTH RATE



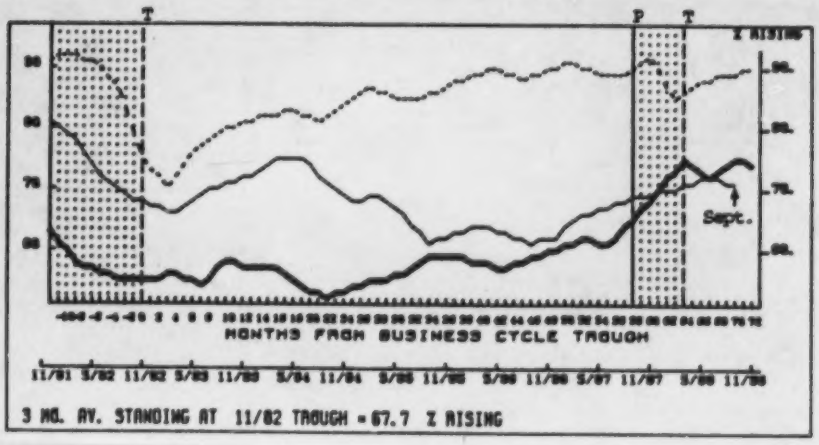
No contribution to inflation here.

58. IMPORT PRICE INDEX (EXCLUDING FUELS), GROWTH RATE

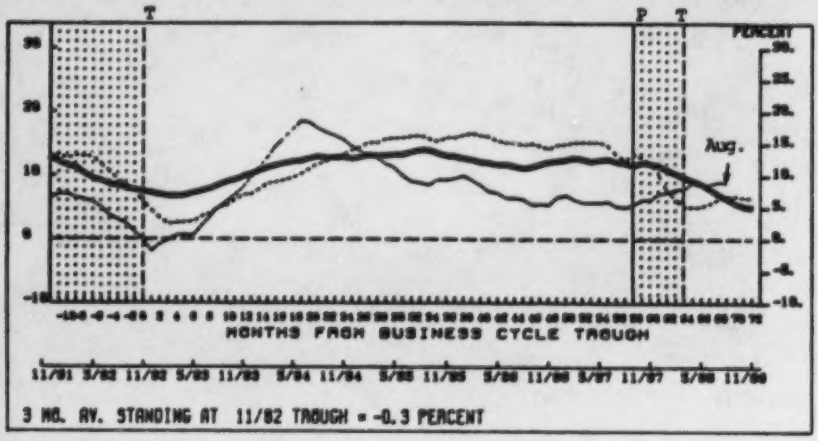


First slowdown since 1985

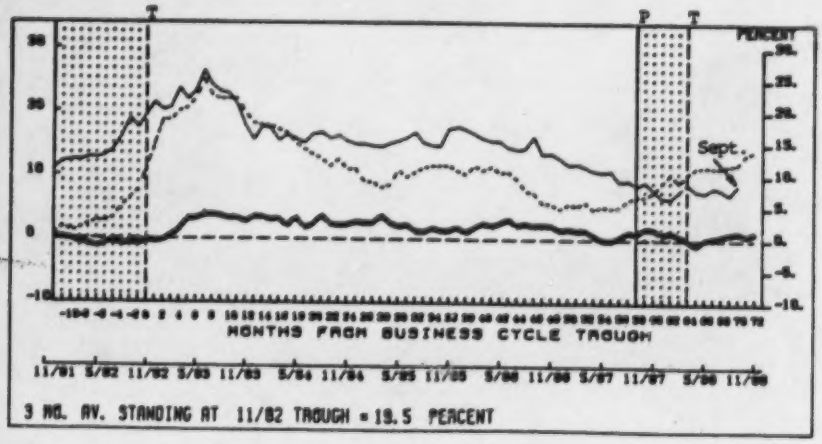
59. BUSINESSMEN'S ANTICIPATED SELLING PRICES (SURVEY)


T
P
T
% RISING
Sept.
MONTHS FROM BUSINESS CYCLE TROUGH
11/81 5/82 11/82 5/83 11/83 5/84 11/84 5/85 11/85 5/86 11/86 5/87 11/87 5/88 11/88
3 MO. AV. STANDING AT 11/82 TROUGH = 67.7 % RISING

60. BUSINESS & CONSUMER DEBT, GROWTH RATE



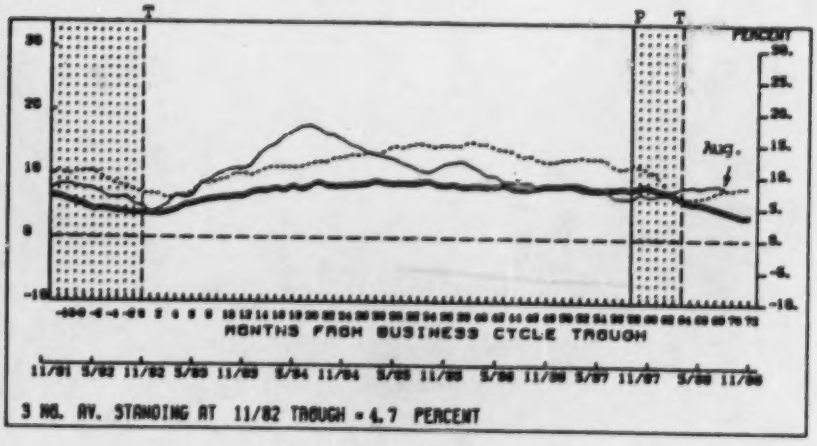
61. FEDERAL DEBT, GROWTH RATE



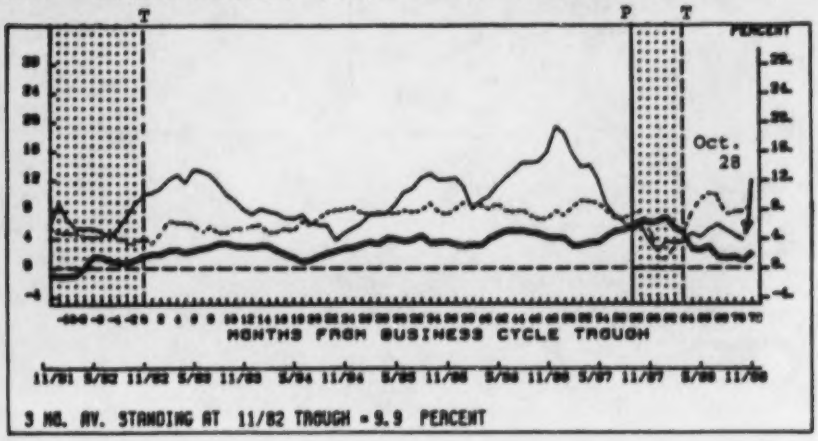
Growth of private debt has been accelerating -

while growth of Federal debt has stabilized.

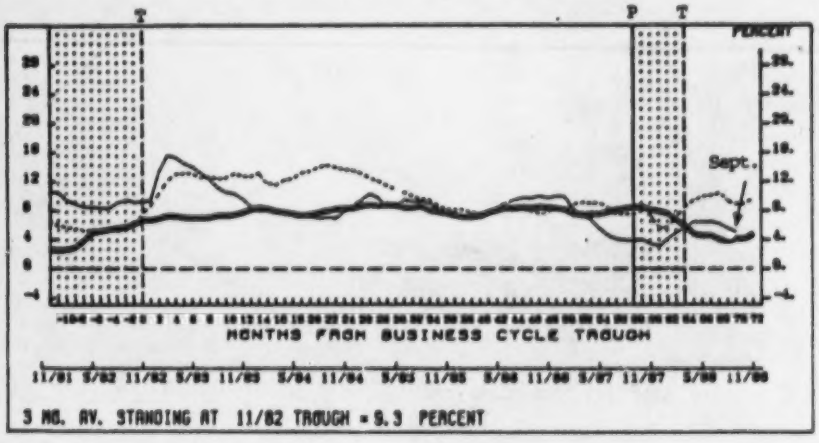
62. TOTAL DEBT, GROWTH RATE



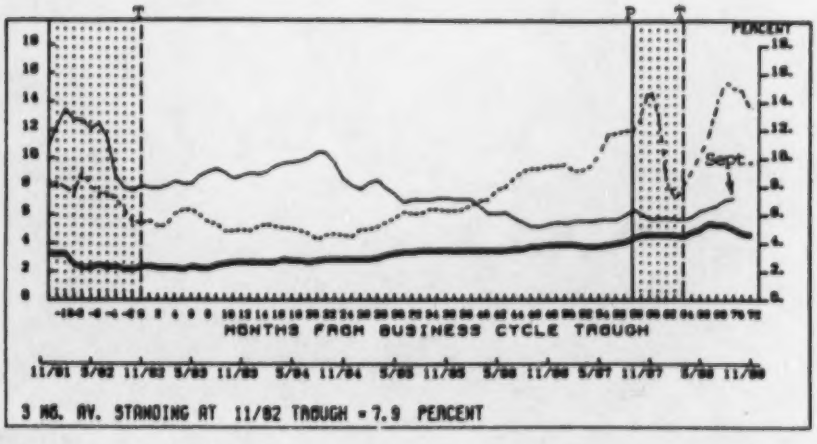
63. MONEY SUPPLY (M1), GROWTH RATE



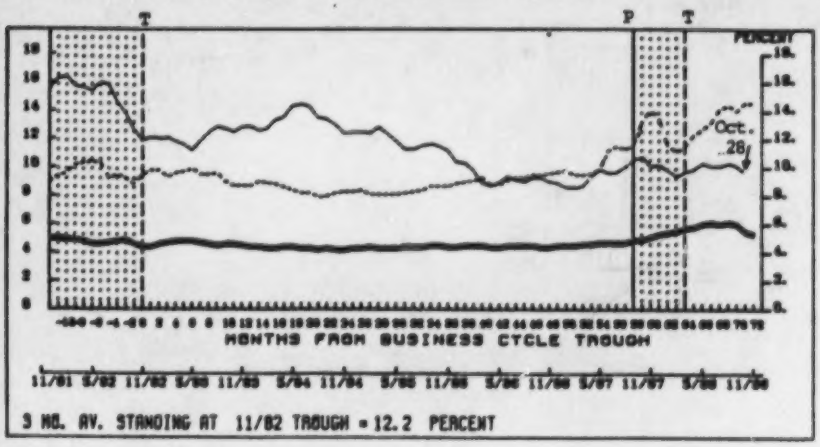
64. MONEY SUPPLY (M2), GROWTH RATE



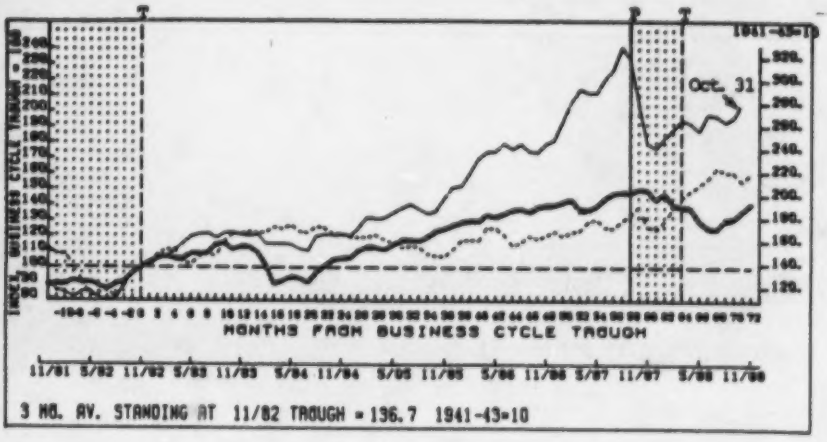
65. TREASURY BILL RATE (3-MONTH)



66. NEW CORPORATE BOND YIELD (AA)



67. COMMON STOCK PRICE INDEX (S&P 500)



OIPUS-2
1/24/89

RECESSION - RECOVERY WATCH...

A Bimonthly Report
Designed to Assist in the Evaluation
of Current Business Conditions

Published by the Center for International Business Cycle Research,
Columbia Business School, Columbia University, New York, NY 10027

Dr. Geoffrey H. Moore
Director

Vol. 10, No. 6
December 1988

Summary

The business cycle expansion entered its seventh year in December, having equaled the peacetime record set by George Washington with a six-year expansion from 1790 to 1796. Only annual records of business cycles are available for that early period. But if 1989 proves to be a better year than 1988, the new George (Bush), with a seven year expansion, will have beat the old George's record! The leading indicators continue to support that outcome. The long-leading index has dropped a little since August, but not enough to signal a recession. The growth rates in the other leading indexes range from slow to intermediate, indicating continued expansion in employment and output. The leading index of inflation, on the other hand, has been signaling slower inflation ahead. If this signal proves correct, it will be easier for the Federal Reserve to counter any signs of recession, should they develop. In this issue of Recession-Recovery Watch we show how to detect such signs by examining the patterns that have developed among the indicators during the twelve months prior to past recessions.

Advance Warnings of Recession

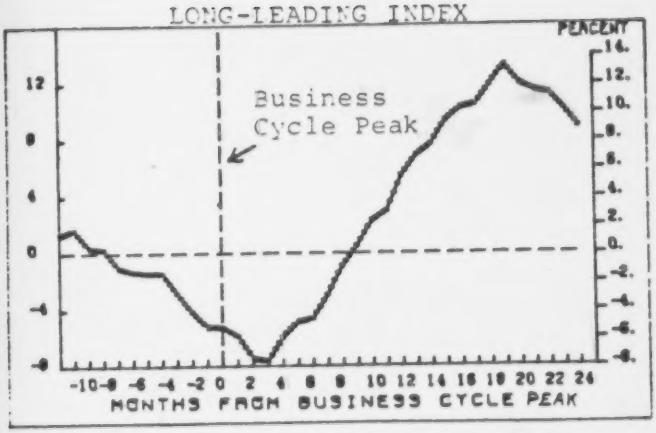
Since the possibility of a recession sometime during 1989 or 1990 cannot be completely ruled out, it may be helpful to see what the leading indexes looked like prior to previous recessions. Hence we have prepared Chart A, which shows the average patterns of growth rates in several indexes, starting 11 months before each business cycle peak and ending 24 months after the peak. The period covered includes the seven recessions from 1953 through 1982. Since none of these recessions lasted more than sixteen months, the period covered by the chart reaches well into the ensuing recoveries.

As we would expect, the growth rate in the long-leading index is the first to fall below the zero line. On average, it reached that point about eight months before a recession began. This index, developed by CIBCR in its recently completed review of the leading indicators, includes four components, two of which are

CHART A.

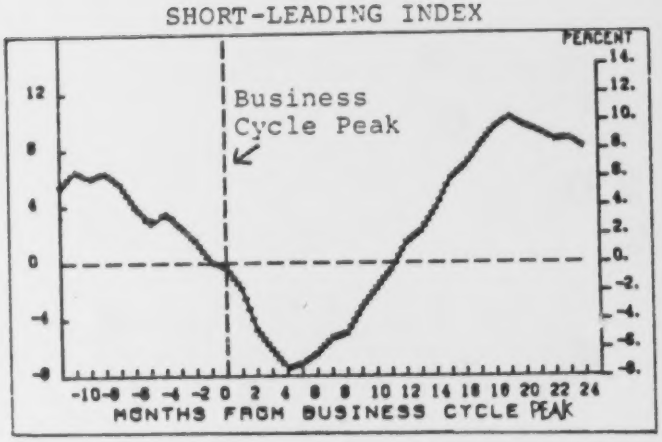
AVERAGE GROWTH RATE PATTERNS BEFORE AND
AFTER BUSINESS CYCLE PEAKS, 1953-82

LONG-LEADING INDEX



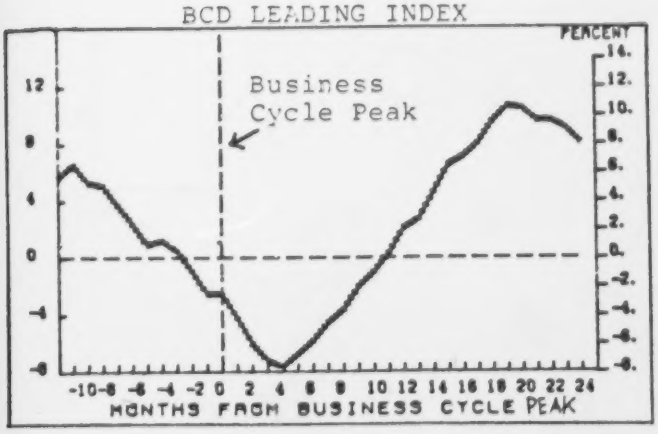
Latest Rate (Nov. 88): 3.4%

SHORT-LEADING INDEX



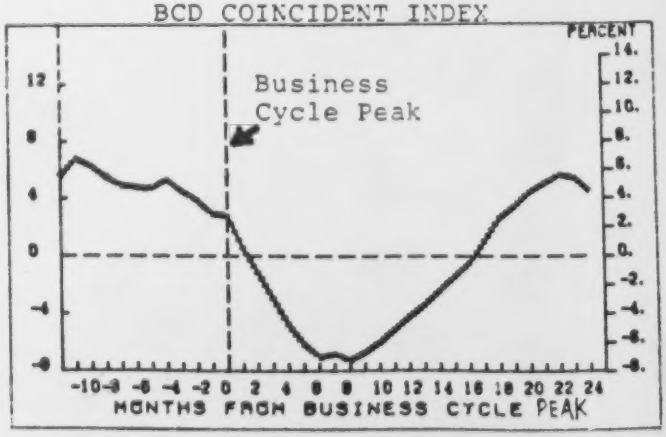
Latest Rate (Nov. 88): 1.5%

BCD LEADING INDEX



Latest Rate (Nov. 88): 1.2%

BCD COINCIDENT INDEX



Latest Rate (Nov. 88): 4.9%

presently used in the Commerce Department's BCD leading index (deflated money supply--M2, and housing permits) and two that are new (bond prices and a profit margin indicator). The long-leading index gives advance warnings not only of recessions but also of declines in the short-leading index. The growth rate in the latter, which closely resembles the BCD index but uses several new components, reached the zero line only about a month before recessions began, on average. The BCD leading index got there a couple of months sooner. All three of the leading indexes shown in Chart A, however, registered negative growth rates before the coincident index did. The coincident index growth rate reached the zero mark about two months after the business cycle peak date, on average. The reason for the lag is that the six-month smoothed growth rate, used in the Chart, cannot become negative until the index falls below its average level during the preceding twelve months, and the initial decline may be too small for that.

The most recent growth rates for the four indexes are recorded in Chart A. None of them have hit the zero line. The short-leading and the BCD leading growth rates have been hovering close to the line ever since the October 1987 stock market crash, but the long-leading rate, after dipping to the 1% level from September 1987 through January 1988, surged to a much higher level in February. The long-leading rate peaked at 7.3% in August and declined to 3.4% in November. This is still above the average for this rate twelve months before recessions began, as shown in Chart A. The upshot is that all three leading indexes are indicating slower economic growth in 1989 but are not signaling recession.

Slower growth has often gone hand in hand with slower inflation. Recessions have an even bigger impact, of course. The leading index of inflation seems to have already got the message. It has been declining since June. Most of its seven components have either been declining or leveling off, although during December the index of industrial materials prices began to accelerate. This will bear watching, but so far the evidence suggests that inflation is under control, helped by the prospect for slower growth.

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53 Leading Index of Inflation (CIBCR) 32
54 Consumer Price Index (BCD 320) 32
55 Consumer Price Index, Growth Rate. 32
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57 Industrial Materials Price Index, Growth Rate (L,L,L). 33
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62 Total Debt, Growth Rate. 35
63 Money Supply (M1), Growth Rate (L,L,L) 36
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65 Treasury Bill Rate (BCD 114)(C,Lg,Lg). 36
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67 Stock Prices (BCD 19)(L,L,L) 37

The series numbers of indicators that are reported in Business Conditions Digest are noted above. Readers may wish to consult the 1984 Handbook of Cyclical Indicators for further information on particular time series. The letter symbols L, C, Lg and U identify the timing classification of the series with respect to business cycles, as shown in Business Conditions Digest. L = leading, C = coincident, Lg = lagging, and U = unclassified because of inconsistency in timing. The three letters in parentheses refer to peaks, troughs and to peaks and troughs, respectively. When the series we use is similar to but not identical with the BCD series, the BCD classification has been used. In the case of growth rates, we show the classification only where a similar growth rate for the same or similar series is classified in BCD.

A GUIDE TO RECESSION-RECOVERY WATCH TABLES

As readers of Recession-Recovery Watch know, the record of previous business cycle expansions provides a guide to the future prospects of the current expansion. The idea is, of course, incorporated in the Recession-Recovery Watch pattern charts and tables.

The tables cover more than sixty indicators and give the information needed to compare the current expansion with two very long expansion since 1961. The two very long expansions are: 1961-69, (106 months) and 1975-80 (58 months). The expansions that are excluded covered the following periods: 1949-53, 45 months; 1954-57, 39 months; 1958-60, 24 months; 1970-73, 36 months; 1980-81, 12 months.

Series that are expressed as growth rates, changes, or ratios appear as actual values (Table 1) and as differences from business percentages of business cycle trough standings (Table 3). All other series are expressed as percentages of business cycle trough standings (Table 2). The standing is a three month average centered on the trough month. In the case of quarterly series the trough standing is the figure for the business cycle trough quarter. The monthly and quarterly trough dates are those established by the National Bureau of Economic Research.

TABLE 1

RECESSION-RECOVERY STATUS UP TO 72 MONTHS AFTER THE BUSINESS CYCLE TROUGH
Actual Levels

		UNIT	Months After Business cycle Trough	Expansions Starting Feb. 1961	Expansions Starting Mar. 1975	Current Expansion Starting Nov. 1982	Last Month or Quarter Available
I.	Composite Indexes						
6.	BUSINESS WEEK LEADING INDEX, GROWTH RATE	%	71	-3.3	-3.2	4.8	OCT
6A.	LONG LEADING INDEX, GROWTH RATE	%	71	0.9	2.3	3.5	OCT
6B.	N.A.P.M. INDEX, GROWTH RATE	%	72	-6.6	2.8	2.6	NOV
7.	LEADING EMPLOYMENT INDEX, GROWTH RATE	%	72	-3.2	6.2	5.4	NOV
8.	COINCIDENT EMPLOYMENT INDEX, GROWTH RATE	%	72	3.4	4.4	6.4	NOV
9.	LEADING INDEX (BCD), GROWTH RATE	%	71	-3.0	2.8	1.1	OCT
10.	COINCIDENT INDEX (BCD), GROWTH RATE	%	71	5.3	3.5	5.7	OCT
10A.	SERVICES LEADING INDEX, GROWTH RATE	%	72	0.3	4.2	0.8	NOV
10B.	SERVICES COINCIDENT INDEX, GROWTH RATE	%	72	4.1	1.8	3.1	NOV
11.	DIFFUSION INDEX OF LEADING INDICATORS	% RISING	72	21.0	82.0	70.0	NOV
13.	RATIO, COINCIDENT TO LAGGING INDEX	1967=100	71	100.1	122.0	120.8	OCT
15.	NINE-COUNTRY LEADING INDEX, GROWTH RATE	%	70	-0.5	-4.0	5.0	SEP
II.	Output, Income and Sales						
17.	REAL GNP GROWTH RATE	%	2Q	3.0	0.6	3.1	Q3
III.	Employment and Unemployment						
23.	EMPLOYMENT TO POPULATION RATIO	%	72	57.8	59.8	62.9	NOV
28.	EMPLOYMENT DIFFUSION INDEX, 186 INDUS.	% RISING	72	65.0	70.0	71.9	NOV
29.	UNEMPL. SEVERITY INDEX	WEEKS PER 100 IN LABOR FORCE	72	34.0	100.8	66.3	NOV
30.	UNEMPLOYMENT RATE: TOTAL	%	72	3.7	7.2	5.3	NOV
31.	UNEMPLOYMENT RATE: INSURED	%	72	2.4	3.4	1.9	NOV
33.	SHORT-DURATION UNEMPLOYMENT RATE	%	72	3.1	5.2	4.1	NOV
34.	LAYOFF RATE UNDER 5 WEEKS (TIMES 10)	%	72	3.5	6.1	3.6	NOV
35.	PART-TIME EMPLOYMENT RATIO	%	72	3.9	3.0	3.2	NOV
IV.	Investment Commitments and Inventories						
42.	INVENTORY/SALES RATIO (TIMES 10)	%	70	15.2	16.0	15.4	SEP
43.	CHANGE IN INVENTORIES ON HAND & ON ORDER	BIL. 82$.	70	30.8	-0.8	17.2	SEP
V.	Productivity, Wages, Costs, Prices and Profits						
44.	OUTPUT PER HOUR, GROWTH RATE	%	2Q	0.4	1.3	0.7	Q3
45.	UNIT LABOR COSTS, GROWTH RATE	%	2Q	5.3	9.1	4.0	Q3
46.	HOURLY COMPENSATION, GROWTH RATE	%	2Q	5.5	10.4	4.9	Q3
47.	REAL HOURLY COMPENSATION, GROWTH RATE	%	2Q	2.1	-0.8	0.5	Q3
48.	SELLING PRICE INDEX, GROWTH RATE	%	2Q	4.6	9.5	3.2	Q3
49.	GROWTH IN PRICES MINUS GROWTH IN COSTS	% POINTS	2Q	-0.7	0.4	-0.8	Q3
50.	CORPORATE PROFIT MARGIN	%	2Q	12.7	4.4	6.1	Q3
51.	PRICE/LABOR COST RATIO	1977=100	2Q	101.1	96.4	98.7	Q3
55.	CONSUMER PRICE INDEX, GROWTH RATE	%	72	2.6	10.5	4.4	NOV
57.	INDUSTRIAL MAT. PRICE INDEX, GROWTH RATE	%	72	-9.3	0.5	-1.3	NOV
58.	IMPORT PRICES EXCL. FUELS, GROWTH RATE	%	70	3.0	7.5	5.0	Q3(SEP)
59.	ANTICIPATED SELLING PRICES (D&B SURVEY)	% RISING	70	75.0	89.0	71.0	Q3(SEP)
VI.	Money, Credit, Interest Rates and Stock Prices						
60.	BUSINESS & CONSUMER DEBT, GROWTH RATE	%	71	5.2	6.6	8.5	OCT
61.	FEDERAL DEBT, GROWTH RATE	%	72	1.2	14.1	7.0	NOV
62.	TOTAL DEBT, GROWTH RATE	%	71	3.7	8.3	8.2	OCT
63.	MONEY SUPPLY (M1), GROWTH RATE	%	72	2.0	8.6	3.5	NOV
64.	MONEY SUPPLY (M2), GROWTH RATE	%	72	4.7	9.6	4.5	NOV
65.	TREASURY BILL RATE (3-MONTH)	%	72	4.6	13.4	7.8	NOV
66.	NEW CORPORATE BOND YIELD (AA)	%	72	5.4	14.5	10.0	NOV

TABLE 2

RECESSION-RECOVERY STATUS UP TO 72 MONTHS AFTER THE BUSINESS CYCLE TROUGH
Percentage Change from Trough Levels

	Months After Business Cycle Trough	Expansions Starting FEB. 1961	Expansions Starting MAR. 1975	Current Expansion Starting Nov. 1982	Last Month or Quarter Available
I. Composite Indexes					
1. BUSINESS WEEK LEADING INDEX (CIBCR)	71	24.1	21.0	47.3	OCT
1A. LONG LEADING INDEX (CIBCR)	71	47.7	14.0	60.8	OCT
1B. N.A.P.M. INDEX	72	35.9	25.8	32.7	NOV
2. LEADING EMPLOYMENT INDEX (CIBCR)	72	38.7	28.9	42.4	NOV
3. COINCIDENT EMPLOYMENT INDEX (CIBCR)	72	38.7	28.9	42.4	NOV
4. LEADING INDEX (BCD)	71	35.9	29.0	38.2	OCT
5. COINCIDENT INDEX (BCD)	71	48.3	29.5	36.6	OCT
12. LAGGING INDEX (BCD)	71	30.0	2.6	24.5	OCT
14. NINE-COUNTRY LEADING INDEX (CIBCR)	70	9.2	22.6	40.0	SEP
II. Output, Income and Sales					
16. REAL GNP	230	33.4	21.1	26.9	Q3
18. INDUSTRIAL PRODUCTION INDEX	72	56.8	34.9	39.2	NOV
19. REAL PERSONAL INCOME	71	34.0	20.9	23.6	OCT
20. REAL CONSUMER EXPENDITURES	71	30.6	19.9	25.7	OCT
21. REAL RETAIL SALES	71	23.6	18.9	29.3	OCT
III. Employment and Unemployment					
22. TOTAL EMPLOYMENT	72	12.2	17.6	16.8	NOV
24. NONFARM EMPLOYMENT	72	22.0	19.1	21.1	NOV
25. NONFARM EMPLOYEE-HOURS	72	21.3	17.5	21.6	NOV
26. EMPLOYMENT IN GOODS-PRODUCING INDUSTRIES.	72	19.2	13.6	12.5	NOV
27. EMPLOYMENT IN SERVICE-PRODUCING INDUSTRIES	72	23.6	21.3	24.1	NOV
32. INITIAL CLAIMS, UNEMPLOYMENT INSURANCE	72	-42.3	-22.0	-51.6	NOV
36. AVERAGE WORKWEEK, MANUFACTURING	72	2.8	2.4	5.6	NOV
37. OVERTIME HOURS, MANUFACTURING	72	61.9	20.8	73.9	NOV
IV. Investment Commitments and Inventories					
38. NEW PRIVATE HOUSING STARTS	72	-9.5	35.0	21.9	NOV
39. NEW PRIVATE HOUSING PERMITS	72	-13.5	44.5	20.5	NOV
40. CONTRACT & ORDERS, PLANT & EQUIPMENT	71	43.9	30.4	76.1	OCT
41. NEW CAPITAL APPROPRIATIONS, MANUFACTURING	220	121.8	38.4	90.0	Q2
V. Productivity, Wages, Costs, Prices and Profits					
52. LARGE BUSINESS FAILURES	72	11.6	81.1	-15.7	NOV
53. LEADING INDEX OF INFLATION (CIBCR)	72	9.1	11.1	15.9	NOV
54. CONSUMER PRICE INDEX, ALL URBAN CONSUMERS	72	10.7	67.9	22.7	NOV
56. INDUSTRIAL MATERIALS PRICE INDEX	72	0.6	34.0	12.2	NOV
VI. Money, Credit, Interest Rates and Stock Prices					
67. STOCK PRICE INDEX (S&P 500)	72	40.9	60.7	98.2	NOV

TABLE 3

RECESSION-RECOVERY STATUS UP TO 72 MONTHS AFTER THE BUSINESS CYCLE TROUGH
Differences from Trough Levels

	Unit	Months After Business Cycle Trough	Expansions Starting FEB. 1961	Expansions Starting MAR. 1975	Current Expansion Starting Nov. 1982	Last Month or Quarter Available
I. Composite Indexes						
6. BUSINESS WEEK LEADING INDEX, GROWTH RATE	%	71	-9.8	2.1	0.5	OCT
6A. LONG LEADING INDEX, GROWTH RATE	%	71	-3.8	2.2	-12.6	OCT
6B. N.A.P.M. INDEX, GROWTH RATE	%	72	-6.5	20.3	5.6	NOV
7. LEADING EMPLOYMENT INDEX, GROWTH RATE	%	72	-1.0	16.1	4.5	NOV
8. COINCIDENT EMPLOYMENT INDEX, GROWTH RATE	%	72	11.4	21.1	14.3	NOV
9. LEADING INDEX (BCD), GROWTH RATE	%	71	-4.3	16.3	-3.5	OCT
10. COINCIDENT INDEX (BCD), GROWTH RATE	%	71	12.1	18.6	12.5	OCT
10A. SERVICES LEADING INDEX, GROWTH RATE	%	72	-1.9	0.4	-4.0	NOV
10B. SERVICES COINCIDENT INDEX, GROWTH RATE	%	72	2.3	2.0	2.1	NOV
11. DIFFUSION INDEX OF LEADING INDICATORS	% RISING	72	-15.7	64.3	23.3	NOV
13. RATIO, COINCIDENT TO LAGGING INDEX	1967=100	71	12.3	25.3	10.8	OCT
15. NINE-COUNTRY LEADING INDEX, GROWTH RATE	%	70	-4.1	7.9	5.2	SEP
II. Output, Income and Sales						
17. REAL GNP GROWTH RATE	%	230	2.4	5.6	4.2	Q3
III. Employment and Unemployment						
23. EMPLOYMENT TO POPULATION RATIO	%	72	1.5	3.3	5.2	NOV
28. EMPLOYMENT DIFFUSION INDEX, 186 INDUS.	% RISING	72	44.7	55.9	50.5	NOV
29. UNEMPL. SEVERITY INDEX WEEKS PER 100 IN LABOR FORCE		72	-57.5	-0.4	-117.8	NOV
30. UNEMPLOYMENT RATE: TOTAL	%	72	-2.9	-1.1	-5.2	NOV
31. UNEMPLOYMENT RATE: INSURED	%	72	-3.9	-2.9	-3.1	NOV
33. SHORT-DURATION UNEMPLOYMENT RATE	%	72	-1.6	-0.8	-2.4	NOV
34. LAYOFF RATE UNDER 5 WEEKS (TIMES 10)	%	72	-2.9	-2.5	-5.4	NOV
35. PART-TIME EMPLOYMENT RATIO	%	72	2.2	0.2	1.2	NOV
IV. Investment Commitments and Inventories						
42. INVENTORY/SALES RATIO (TIMES 10)	%	70	-3.3	-12.7	-16.7	SEP
43. CHANGE IN INVENTORIES ON HAND & ON ORDER	BIL. 82$.	70	55.8	57.4	54.0	SEP
V. Productivity, Wages, Costs, Prices and Profits						
44. OUTPUT PER HOUR, GROWTH RATE	%	230	-1.4	1.8	-0.4	Q3
45. UNIT LABOR COSTS, GROWTH RATE	%	230	4.0	-2.3	-1.3	Q3
46. HOURLY COMPENSATION, GROWTH RATE	%	230	2.3	-0.7	-1.6	Q3
47. REAL HOURLY COMPENSATION, GROWTH RATE	%	230	0.3	-1.0	-1.8	Q3
48. SELLING PRICE INDEX, GROWTH RATE	%	230	4.9	-3.7	-1.1	Q3
49. GROWTH IN PRICES MINUS GROWTH IN COSTS	% POINTS	230	0.9	-1.4	0.2	Q3
50. CORPORATE PROFIT MARGIN	%	230	3.5	-1.3	2.2	Q3
51. PRICE/LABOR COST RATIO	1977=100	230	4.5	-0.8	3.3	Q3
55. CONSUMER PRICE INDEX, GROWTH RATE	%	72	1.4	0.8	0.3	NOV
57. INDUSTRIAL MAT. PRICE INDEX, GROWTH RATE	%	72	-4.6	13.6	5.7	NOV
58. IMPORT PRICES EXCL. FUELS, GROWTH RATE	%	70	4.8	-8.1	6.7	Q3(SEP)
59. ANTICIPATED SELLING PRICES (D&B SURVEY)	% RISING	70	20.0	13.3	3.3	Q3(SEP)
VI. Money, Credit, Interest Rates and Stock Prices						
60. BUSINESS & CONSUMER DEBT, GROWTH RATE	%	71	-2.3	0.7	8.8	OCT
61. FEDERAL DEBT, GROWTH RATE	%	72	1.7	2.8	-12.5	NOV
62. TOTAL DEBT, GROWTH RATE	%	71	-0.1	1.2	3.5	OCT
63. MONEY SUPPLY (M1), GROWTH RATE	%	72	0.4	4.9	-6.4	NOV
64. MONEY SUPPLY (M2), GROWTH RATE	%	72	-1.8	2.1	-4.8	NOV
65. TREASURY BILL RATE (3-MONTH)	%	72	2.2	7.8	-0.1	NOV
66. NEW CORPORATE BOND YIELD (AA)	%	72	0.9	5.1	-2.2	NOV

HOW TO READ CHARTS

ACTUAL LEVEL CHARTS

TITLE: If the title does not say "growth rate," then the chart is for the actual level, rather than the growth rate.

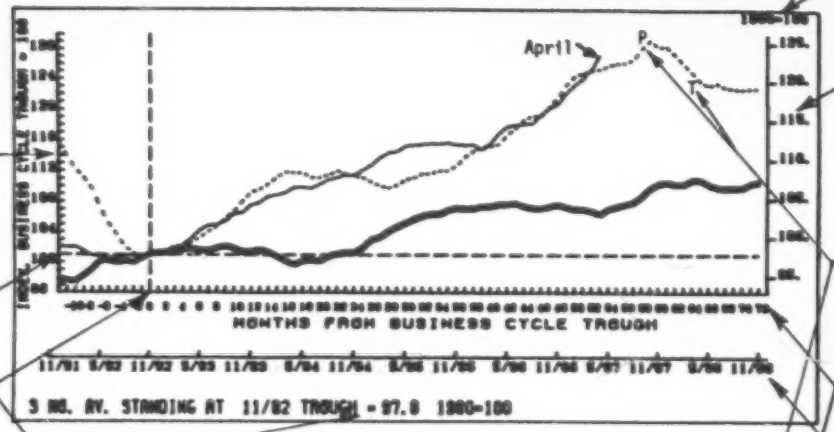
LEFT-HAND SCALE measures movements of both current and past expansions, relative to their standing at the respective reference troughs (i.e. for each expansion the standing at the trough equals 100). This is the common vertical scale along which the expansions are compared.

HORIZONTAL DOTTED LINE shows level at reference trough (100) for current and past expansions.

VERTICAL DOTTED LINE represents reference trough dates for current and past expansions, which are all aligned so that the reference trough dates are positioned on the vertical line.

STANDING AT THE TROUGH for the current expansion (when the expansion began) is typically calculated as the 3-month average centered on the trough month.

14. EIGHT-COUNTRY LEADING INDEX (CIBCR)



UNIT for right-hand scale, which refers only to the current expansion.

RIGHT-HAND SCALE refers only to current expansion. It is a transformation of the left hand scale to show the current expansion in original units rather than with trough standing = 100.

P indicates the January 1980 PEAK, marking the start of the 1980 recession, which lasted till the July 1980 TROUGH, indicated by T.

HORIZONTAL SCALE measures months from business cycle trough for both the current and the past expansions. This is the common time scale along which the recoveries are compared.

ACTUAL DATES, referring only to the current expansion.

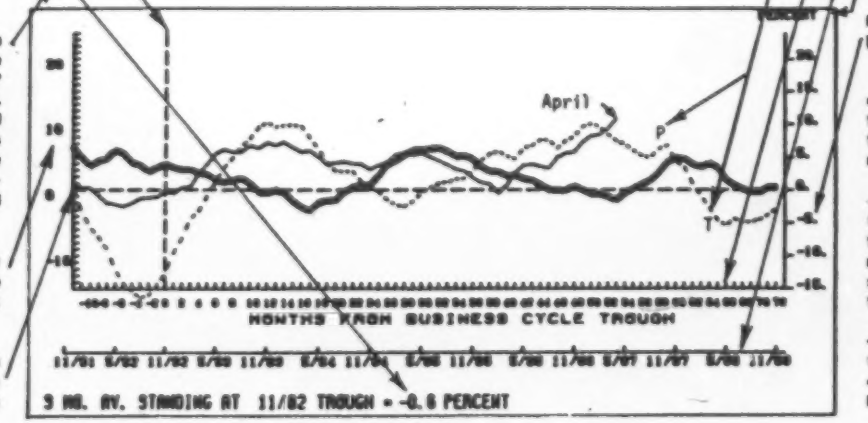
GROWTH RATE CHARTS

TITLE: If the title says "growth rate," then the chart is for the "6-month smoothed growth rate," rather than the actual level. These growth rates are obtained by dividing the current month's figure by the average for the twelve preceding months, and expressing the result as a compound annual rate.

LEFT-HAND SCALE, (same as the right-hand scale) shows growth rates in percent for both current and past expansions.

HORIZONTAL DOTTED LINE is drawn typically at 0% growth rate, a natural reference level for both current and past expansions.

15. EIGHT-COUNTRY LEADING INDEX, GROWTH RATE



UNIT for both scales (percent), referring to both current and past growth rates in expansions.

RIGHT-HAND SCALE, which refers to both current and past expansions.

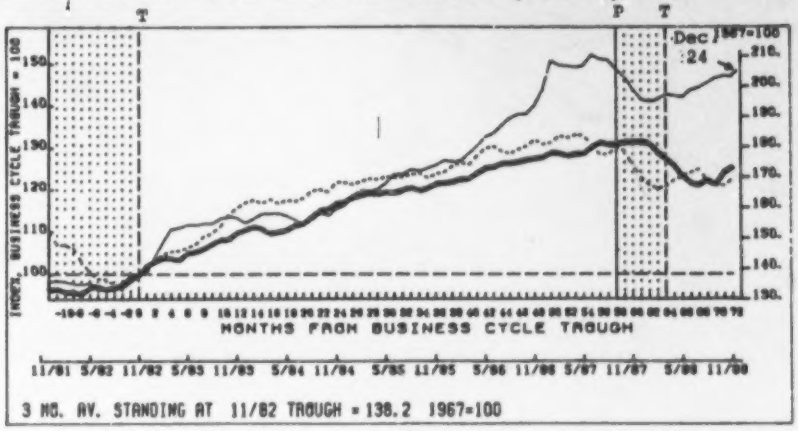
——— THICK LINE indicates 1961-69 expansion (from February 1961) which continued for 106 months.

---------- DOTTED LINE indicates the 1975-80 expansion (from Mar. 1975), which ended after 58 months, and the subsequent recession (from January 1980 to July 1980).

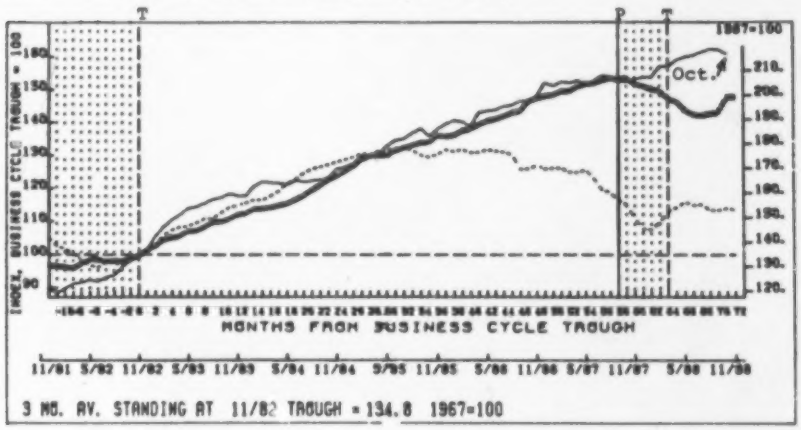
——— THIN LINE indicates the current expansion (business cycle trough: November 1982 or IV Q 1982).

COMPOSITE INDEXES

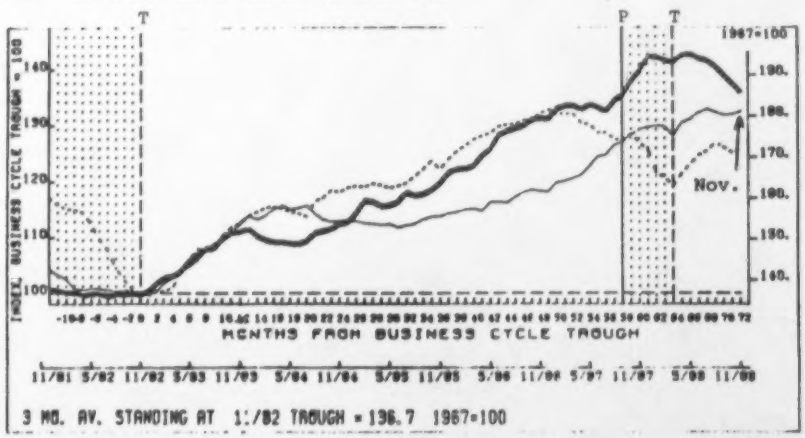
1. BUSINESS WEEK LEADING INDEX (CIBCR)



1A. LONG-LEADING INDEX (CIBCR)

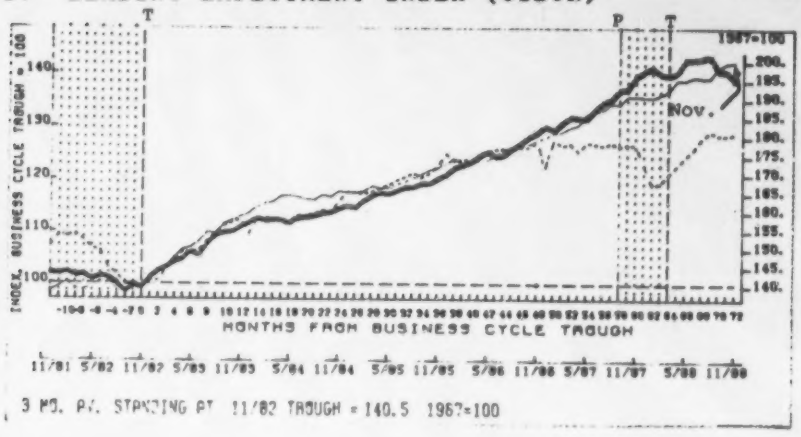


1B. N.A.P.M. LEADING INDEX

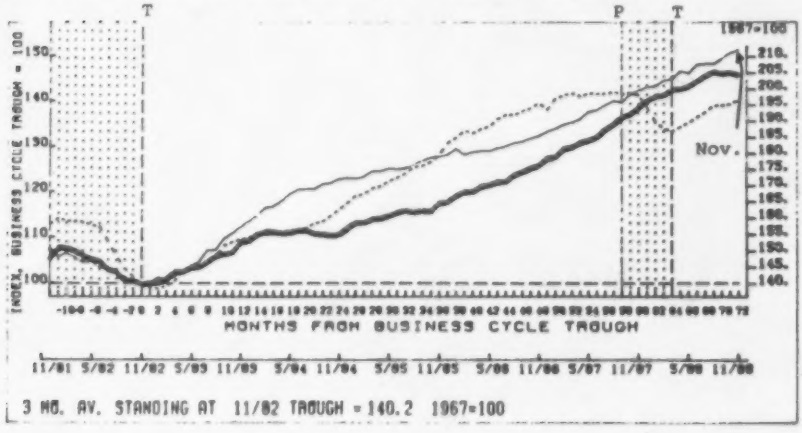


COMPOSITE INDEXES, continued

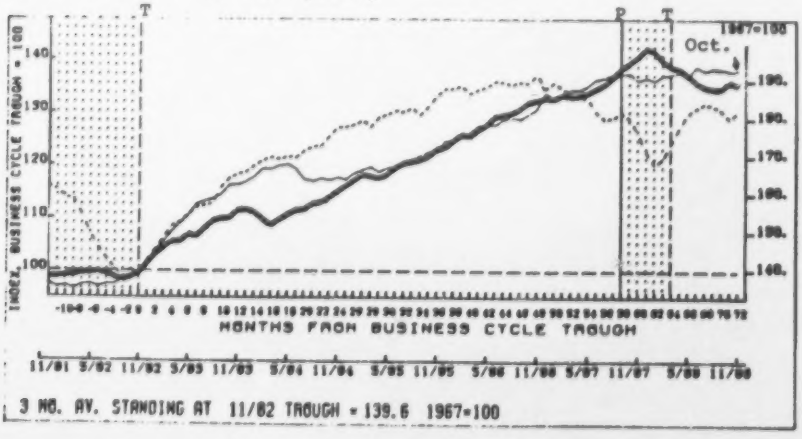
2. LEADING EMPLOYMENT INDEX (CIBCR)


INDEX, BUSINESS CYCLE TROUGH = 100
1967=100
Nov.
MONTHS FROM BUSINESS CYCLE TROUGH
3 MO. AV. STANDING AT 11/82 TROUGH = 140.5 1967=100

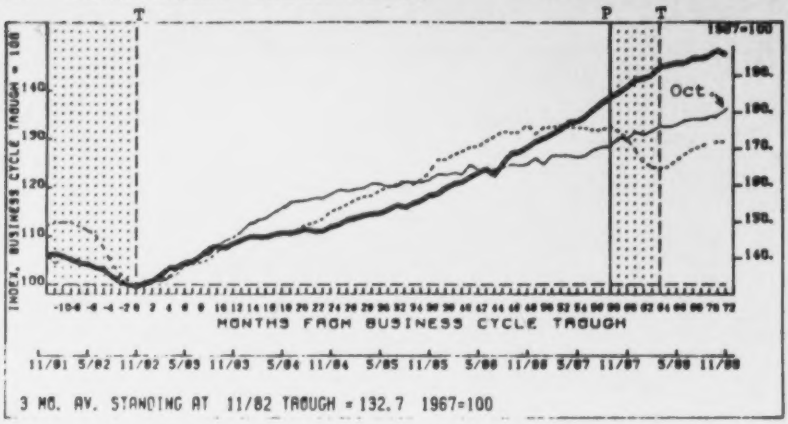
3. COINCIDENT EMPLOYMENT INDEX (CIBCR)


INDEX, BUSINESS CYCLE TROUGH = 100
1967=100
Nov.
MONTHS FROM BUSINESS CYCLE TROUGH
3 MO. AV. STANDING AT 11/82 TROUGH = 140.2 1967=100

4. LEADING INDEX (BCD)

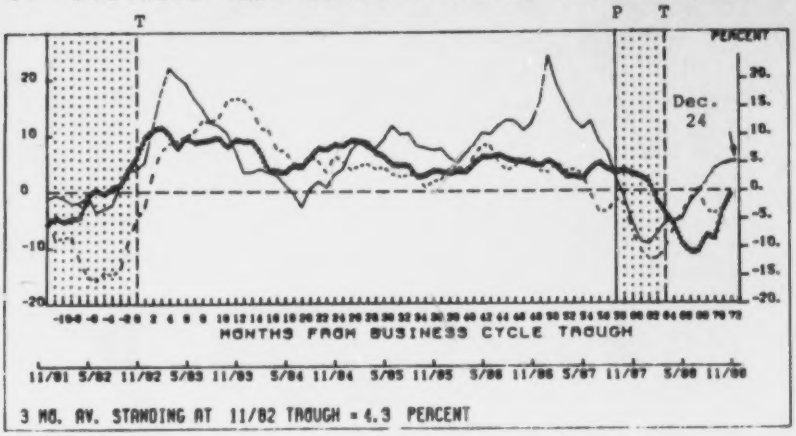

INDEX, BUSINESS CYCLE TROUGH = 100
1967=100
Oct.
MONTHS FROM BUSINESS CYCLE TROUGH
3 MO. AV. STANDING AT 11/82 TROUGH = 139.6 1967=100

5. COINCIDENT INDEX (BCD)

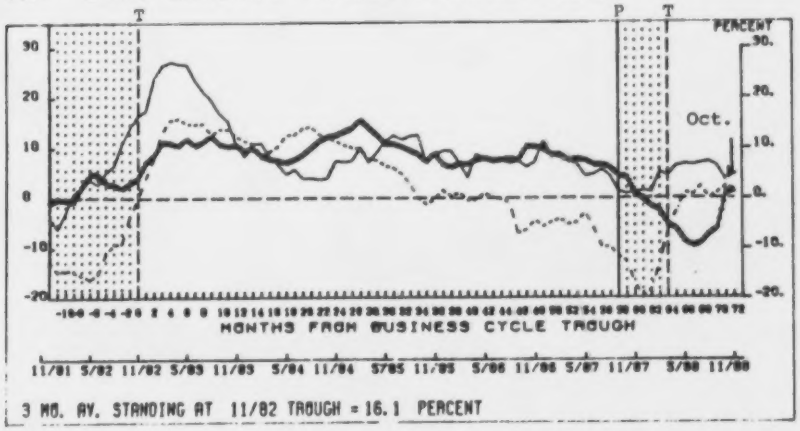


COMPOSITE INDEX GROWTH RATES

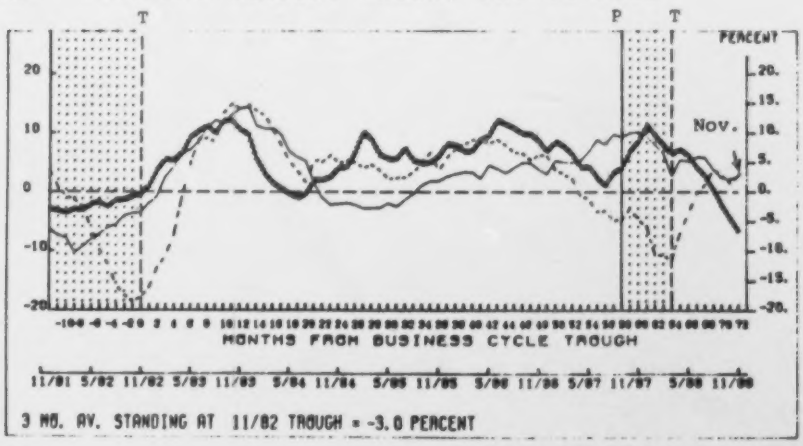
6. BUSINESS WEEK LEADING INDEX, GROWTH RATE


T
P
T
PERCENT
Dec.
24
MONTHS FROM BUSINESS CYCLE TROUGH
11/81 5/82 11/82 5/83 11/83 5/84 11/84 5/85 11/85 5/86 11/86 5/87 11/87 5/88 11/88
3 MO. AV. STANDING AT 11/82 TROUGH = 4.3 PERCENT

6A. LONG-LEADING INDEX, GROWTH RATE

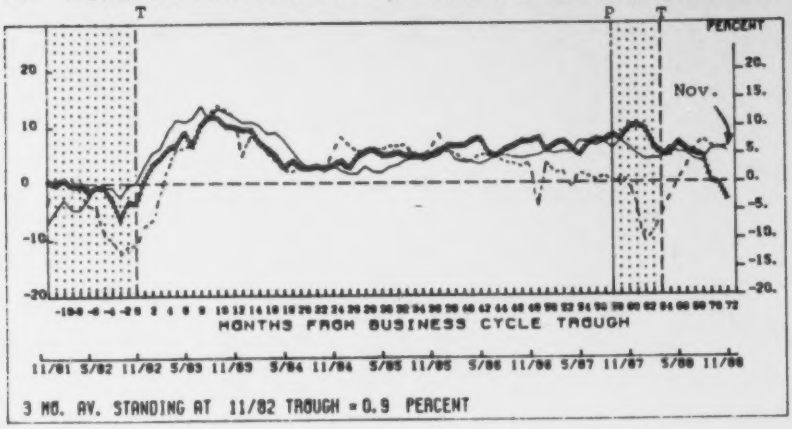

T
P
T
PERCENT
Oct.
MONTHS FROM BUSINESS CYCLE TROUGH
11/81 5/82 11/82 5/83 11/83 5/84 11/84 5/85 11/85 5/86 11/86 5/87 11/87 5/88 11/88
3 MO. AV. STANDING AT 11/82 TROUGH = 16.1 PERCENT

6B. N.A.P.M. LEADING INDEX, GROWTH RATE

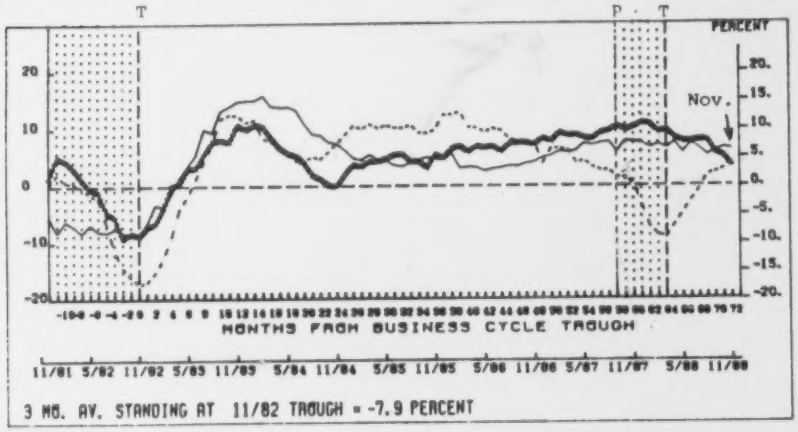

T
P
T
PERCENT
Nov.
MONTHS FROM BUSINESS CYCLE TROUGH
11/81 5/82 11/82 5/83 11/83 5/84 11/84 5/85 11/85 5/86 11/86 5/87 11/87 5/88 11/88
3 MO. AV. STANDING AT 11/82 TROUGH = -3.0 PERCENT

COMPOSITE INDEX GROWTH RATES, continued

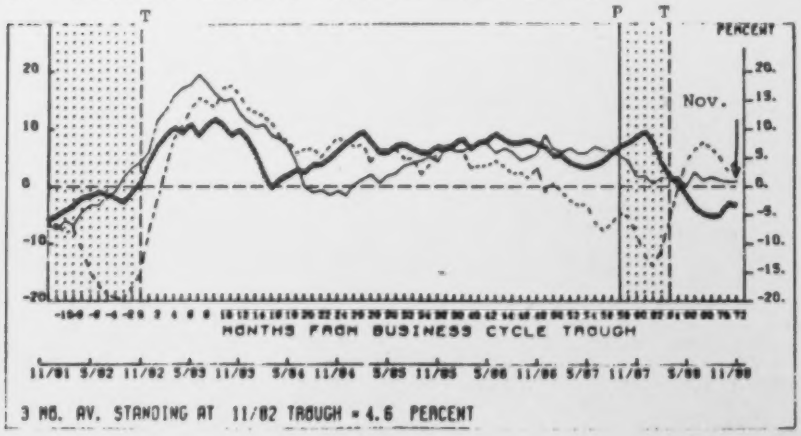
7. LEADING EMPLOYMENT INDEX, GROWTH RATE


T
P
T
PERCENT
Nov.
MONTHS FROM BUSINESS CYCLE TROUGH
11/81 5/82 11/82 5/83 11/83 5/84 11/84 5/85 11/85 5/86 11/86 5/87 11/87 5/88 11/88
3 MO. AV. STANDING AT 11/82 TROUGH = 0.9 PERCENT

8. COINCIDENT EMPLOYMENT INDEX, GROWTH RATE (CIBCR)

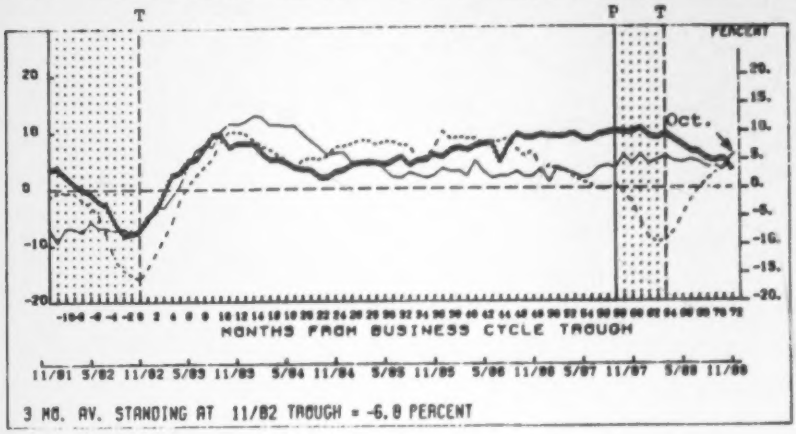

T
P
T
PERCENT
Nov.
MONTHS FROM BUSINESS CYCLE TROUGH
11/81 5/82 11/82 5/83 11/83 5/84 11/84 5/85 11/85 5/86 11/86 5/87 11/87 5/88 11/88
3 MO. AV. STANDING AT 11/82 TROUGH = -7.9 PERCENT

9. LEADING INDEX, GROWTH RATE (BCD)

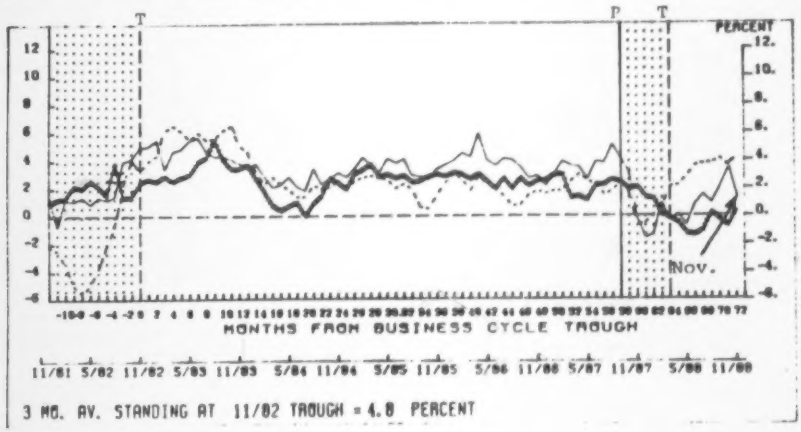

T
P
T
PERCENT
Nov.
MONTHS FROM BUSINESS CYCLE TROUGH
11/81 5/82 11/82 5/83 11/83 5/84 11/84 5/85 11/85 5/86 11/86 5/87 11/87 5/88 11/88
3 MO. AV. STANDING AT 11/82 TROUGH = 4.6 PERCENT

COMPOSITE INDEX GROWTH RATES, continued

10. COINCIDENT INDEX, GROWTH RATE (BCD)

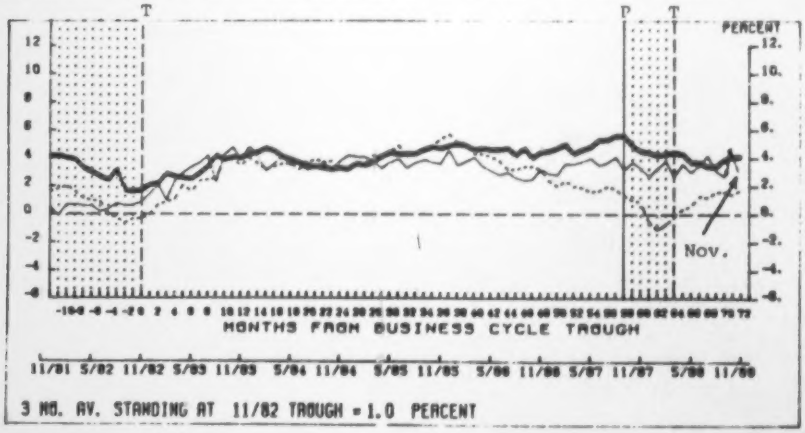


10A. SERVICES LEADING INDEX, GROWTH RATE



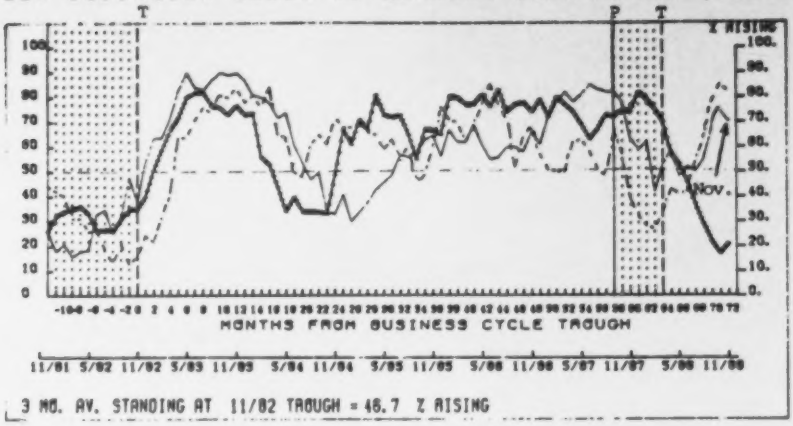
Is service growth headed for a slowdown?

10B. SERVICES COINCIDENT INDEX, GROWTH RATE

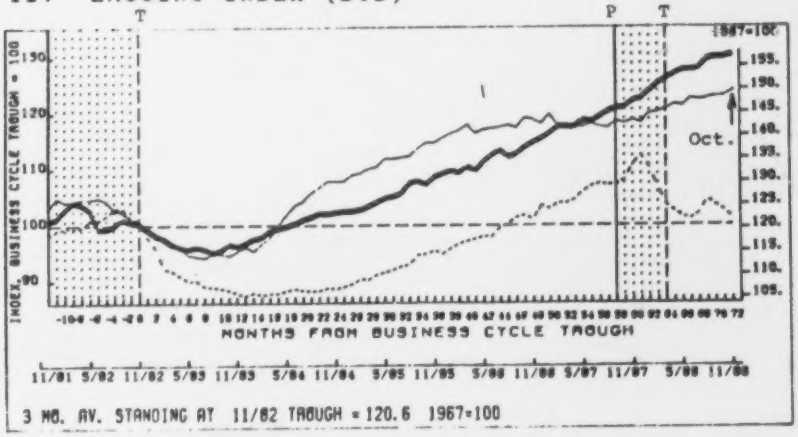


OTHER COMPOSITE INDEXES

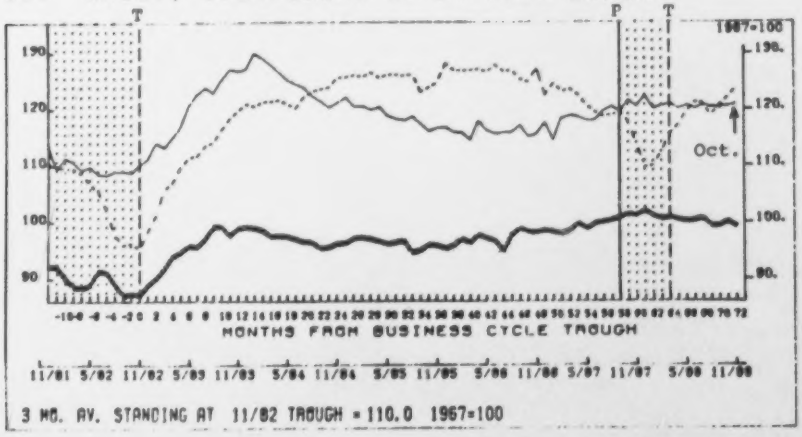
11. DIFFUSION INDEX OF LEADING INDICATORS (CIBCR)


T
P
T
% RISING
Nov.
MONTHS FROM BUSINESS CYCLE TROUGH
11/01 5/02 11/02 5/03 11/03 5/04 11/04 5/05 11/05 5/06 11/06 5/07 11/07 5/08 11/08
3 MO. AV. STANDING AT 11/82 TROUGH = 46.7 % RISING

12. LAGGING INDEX (BCD)

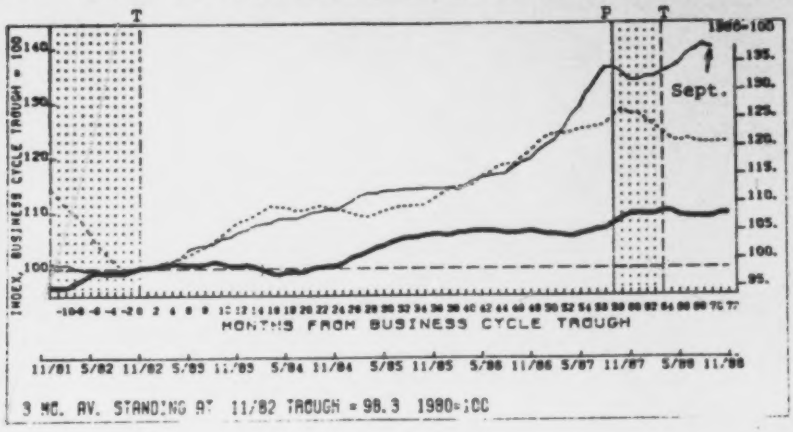


13. RATIO, COINCIDENT TO LAGGING INDEX

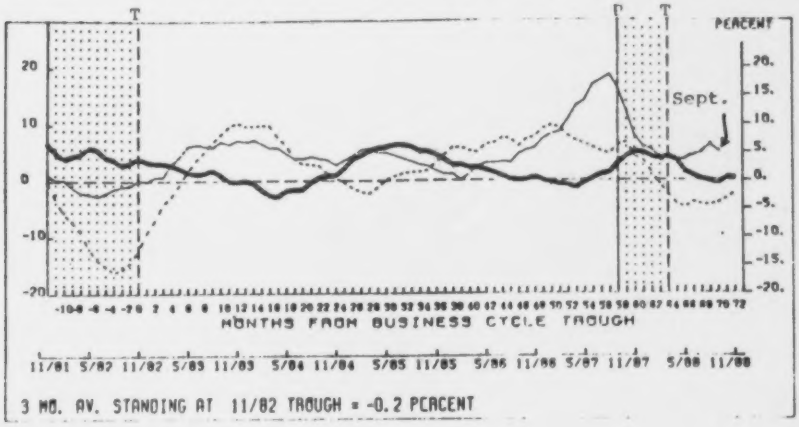


OTHER COMPOSITE INDEXES

14. NINE-COUNTRY LEADING INDEX (CIBCR)*


T
P
T
1980=100
INDEX, BUSINESS CYCLE TROUGH = 100
Sept.
MONTHS FROM BUSINESS CYCLE TROUGH
11/81 5/82 11/82 5/83 11/83 5/84 11/84 5/85 11/85 5/86 11/86 5/87 11/87 5/88 11/88
3 MO. AV. STANDING AT 11/82 TROUGH = 98.3 1980=100

15. NINE-COUNTRY LEADING INDEX, GROWTH RATE

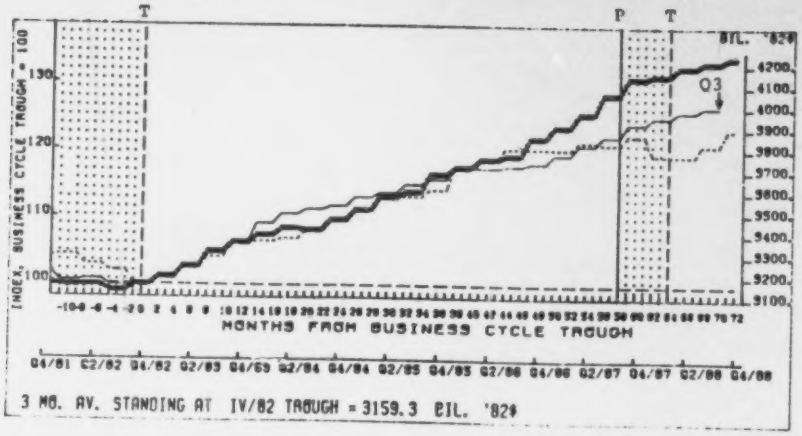

T
P
T
PERCENT
Sept.
MONTHS FROM BUSINESS CYCLE TROUGH
11/81 5/82 11/82 5/83 11/83 5/84 11/84 5/85 11/85 5/86 11/86 5/87 11/87 5/88 11/88
3 MO. AV. STANDING AT 11/82 TROUGH = -0.2 PERCENT

Demand for U.S. exports: still growing.

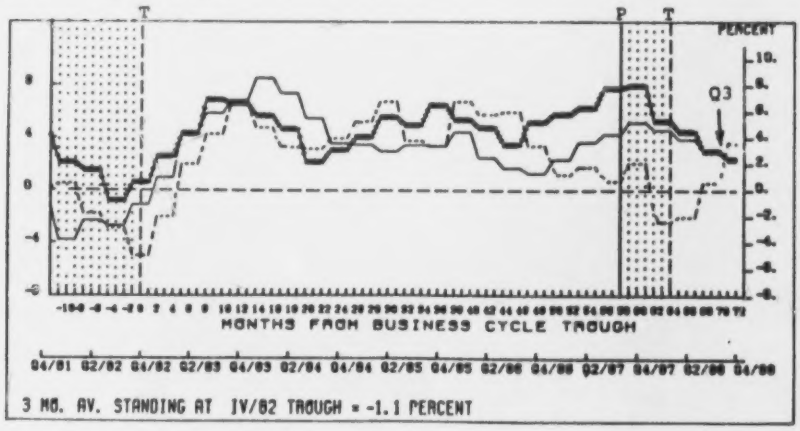
*Canada, United Kingdom, West Germany, France, Italy, Japan, Australia, Taiwan, R.O.C. and Korea, R.O.K.

OUTPUT, INCOME AND SALES

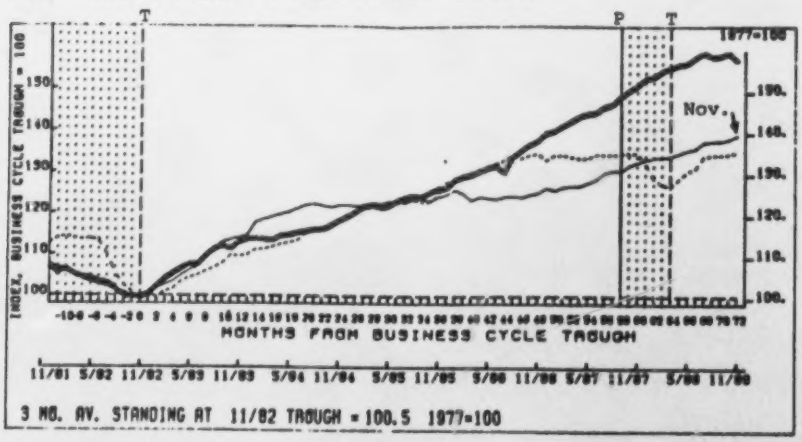
16. REAL GNP



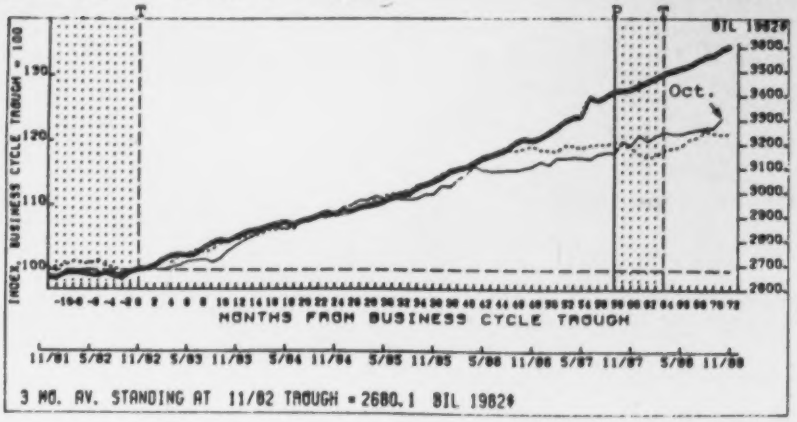
17. REAL GNP, GROWTH RATE



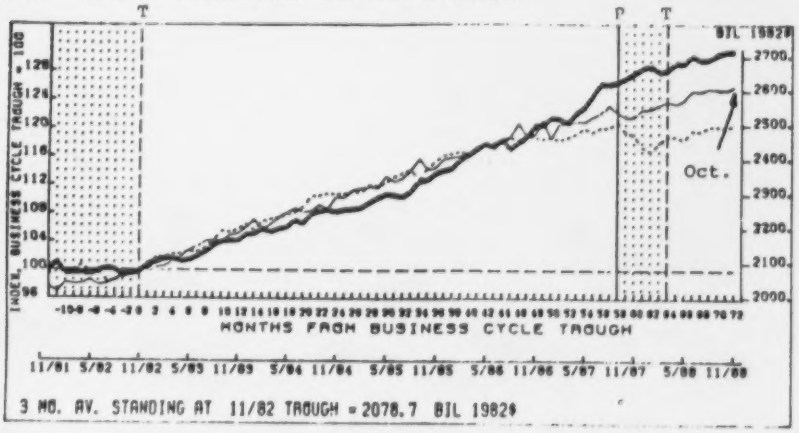
18. INDUSTRIAL PRODUCTION INDEX



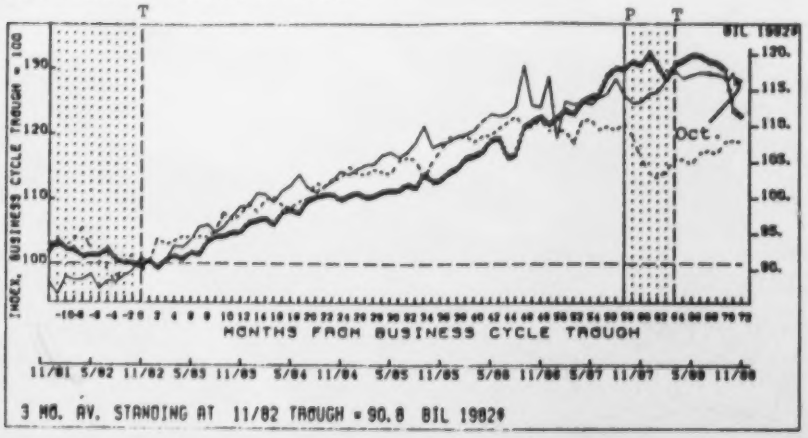
19. REAL PERSONAL INCOME


T
P
T
BIL 1982$
Oct.
INDEX, BUSINESS CYCLE TROUGH = 100
MONTHS FROM BUSINESS CYCLE TROUGH
11/81 5/82 11/82 5/83 11/83 5/84 11/84 5/85 11/85 5/86 11/86 5/87 11/87 5/88 11/88
3 MO. AV. STANDING AT 11/82 TROUGH = 2680.1 BIL 1982$

20. REAL CONSUMER EXPENDITURES

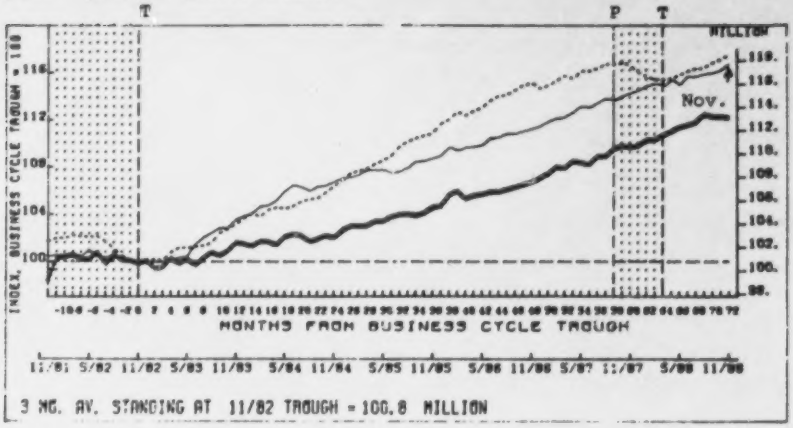

T
P
T
BIL 1982$
Oct.
INDEX, BUSINESS CYCLE TROUGH = 100
MONTHS FROM BUSINESS CYCLE TROUGH
11/81 5/82 11/82 5/83 11/83 5/84 11/84 5/85 11/85 5/86 11/86 5/87 11/87 5/88 11/88
3 MO. AV. STANDING AT 11/82 TROUGH = 2078.7 BIL 1982$

21. REAL RETAIL SALES

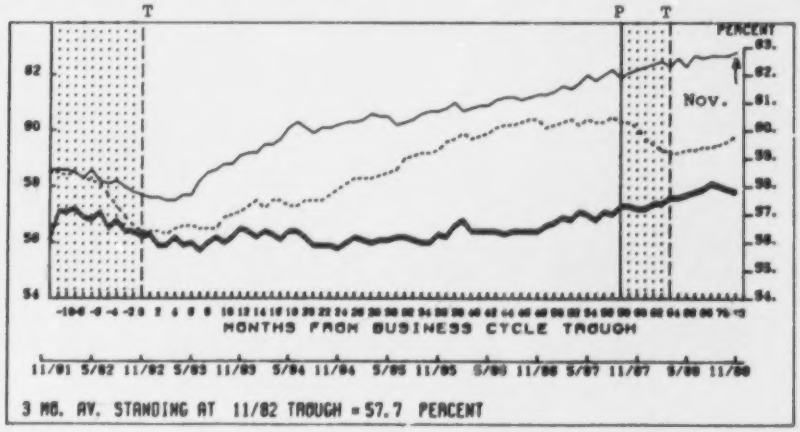

T
P
T
BIL 1982$
Oct.
INDEX, BUSINESS CYCLE TROUGH = 100
MONTHS FROM BUSINESS CYCLE TROUGH
11/81 5/82 11/82 5/83 11/83 5/84 11/84 5/85 11/85 5/86 11/86 5/87 11/87 5/88 11/88
3 MO. AV. STANDING AT 11/82 TROUGH = 90.8 BIL 1982$

EMPLOYMENT

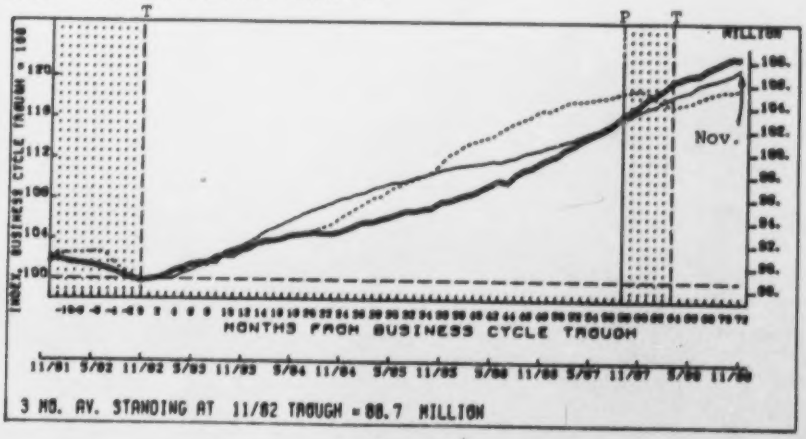
22. TOTAL EMPLOYMENT



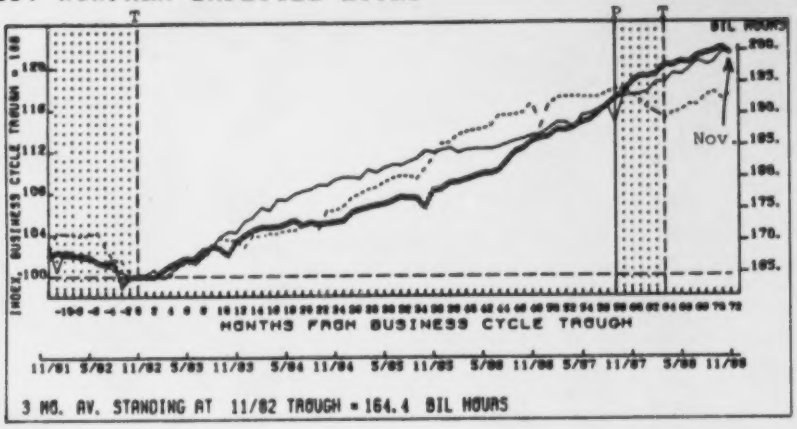
23. EMPLOYMENT TO POPULATION RATIO



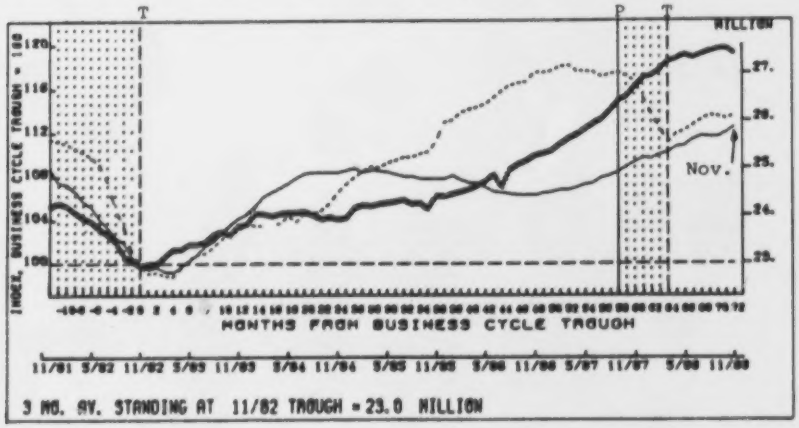
24. NONFARM EMPLOYMENT



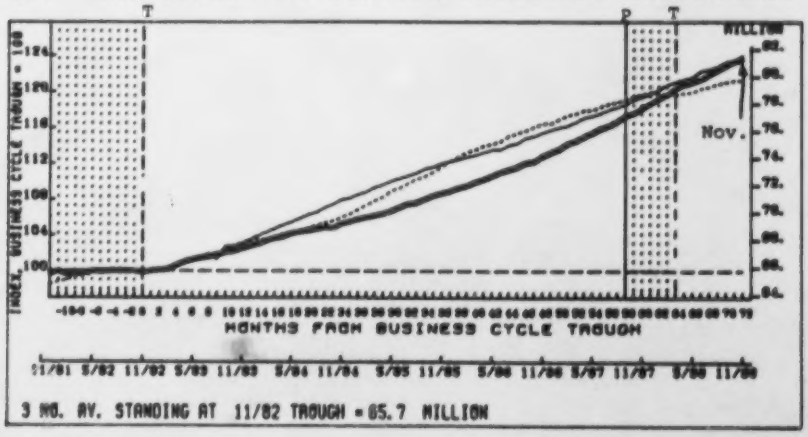
25. NONFARM EMPLOYEE HOURS



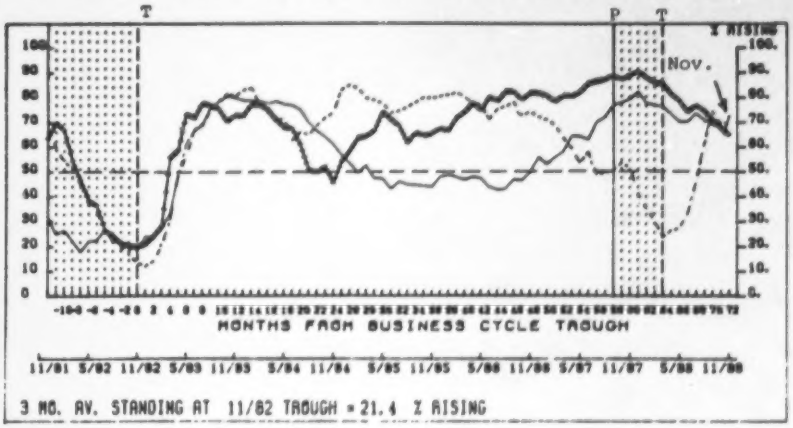
26. EMPLOYMENT IN GOODS-PRODUCING INDUSTRIES



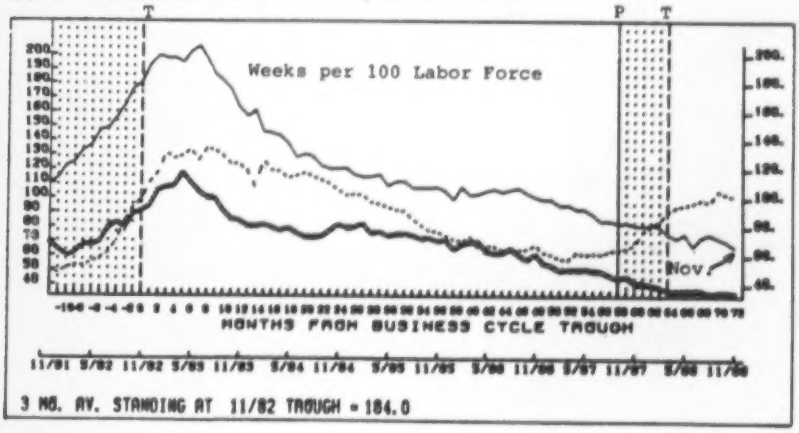
27. EMPLOYMENT IN SERVICE-PRODUCING INDUSTRIES



28. EMPLOYMENT DIFFUSION INDEX, 186 INDUSTRIES

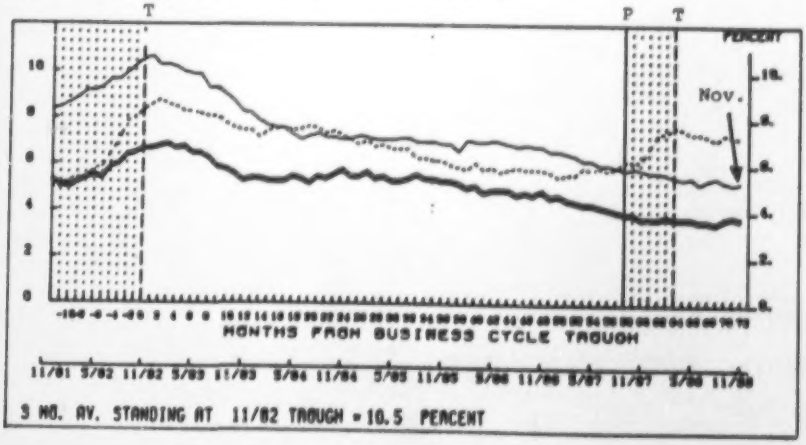

T
P
T
% RISING
Nov.
MONTHS FROM BUSINESS CYCLE TROUGH
11/81 5/82 11/82 5/83 11/83 5/84 11/84 5/85 11/85 5/86 11/86 5/87 11/87 5/88 11/88
3 MO. AV. STANDING AT 11/82 TROUGH = 21.4 % RISING

29. UNEMPLOYMENT SEVERITY INDEX

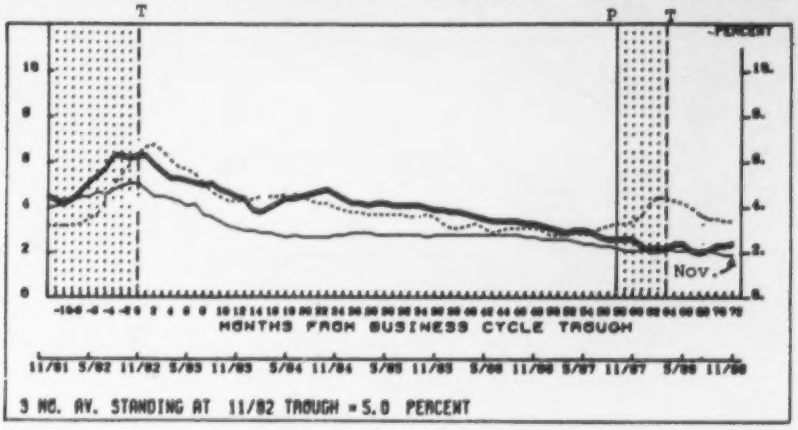

T
P
T
Weeks per 100 Labor Force
Nov.
MONTHS FROM BUSINESS CYCLE TROUGH
11/81 5/82 11/82 5/83 11/83 5/84 11/84 5/85 11/85 5/86 11/86 5/87 11/87 5/88 11/88
3 MO. AV. STANDING AT 11/82 TROUGH = 184.0

The steady downdrift in unemployment severity is encouraging.

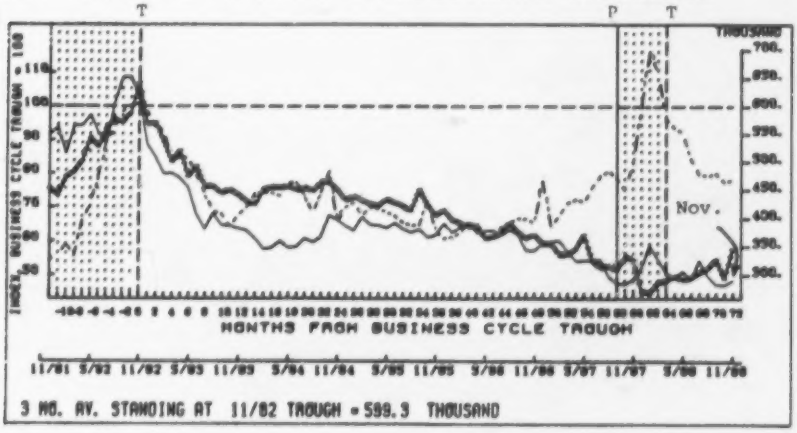
30. UNEMPLOYMENT RATE: TOTAL


T
P
T
PERCENT
Nov.
MONTHS FROM BUSINESS CYCLE TROUGH
11/81 5/82 11/82 5/83 11/83 5/84 11/84 5/85 11/85 5/86 11/86 5/87 11/87 5/88 11/88
3 MO. AV. STANDING AT 11/82 TROUGH = 10.5 PERCENT

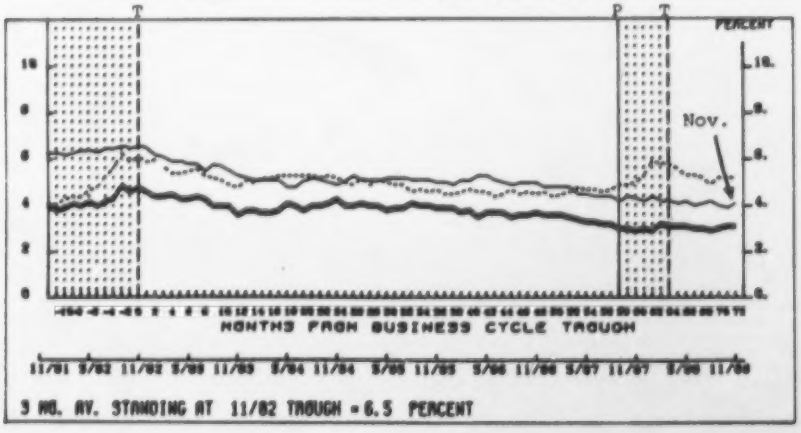
31. UNEMPLOYMENT RATE: INSURED



32. INITIAL CLAIMS, UNEMPLOYMENT INSURANCE

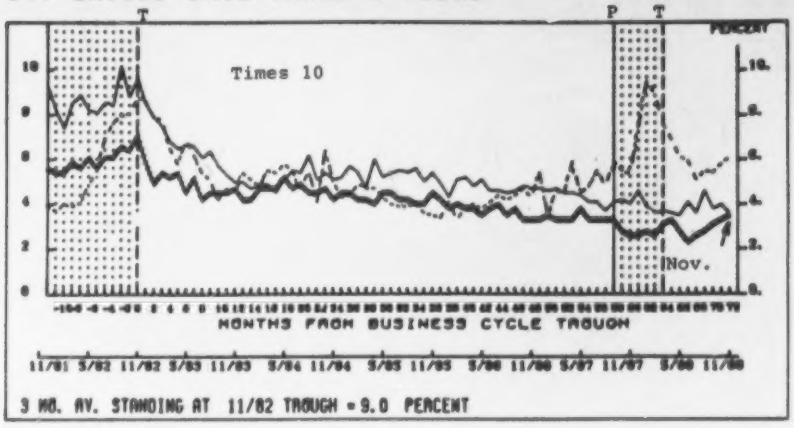


33. SHORT-DURATION UNEMPLOYMENT RATE

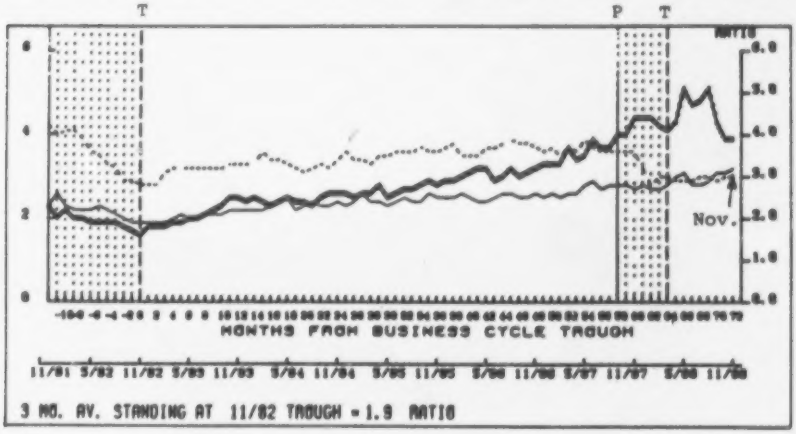


OTHER LEADING EMPLOYMENT INDICATORS

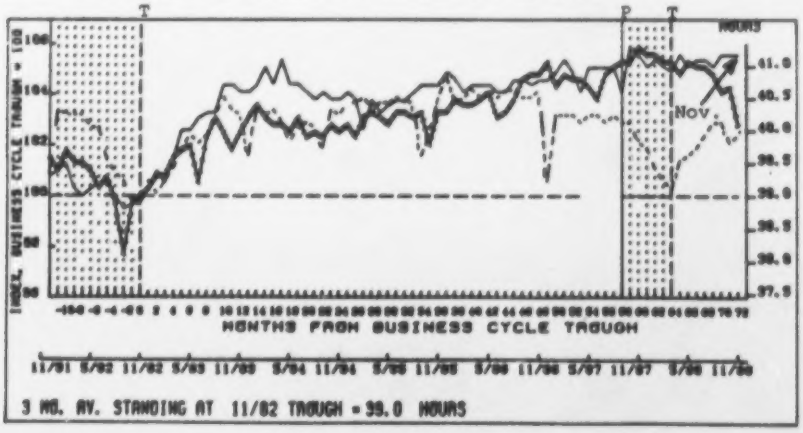
34. LAYOFF RATE UNDER 5 WEEKS



35. VOLUNTARY TO INVOLUNTARY PART-TIME EMPLOYMENT RATIO

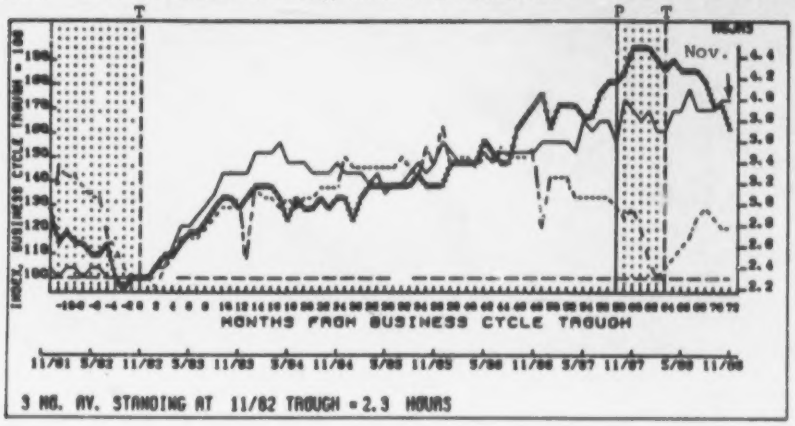


36. AVERAGE WORKWEEK, MANUFACTURING



OTHER LEADING EMPLOYMENT INDICATORS, continued

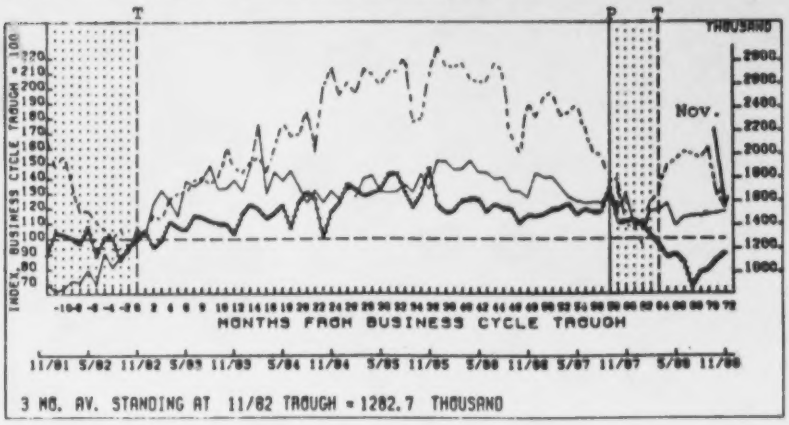
37. OVERTIME HOURS, MANUFACTURING



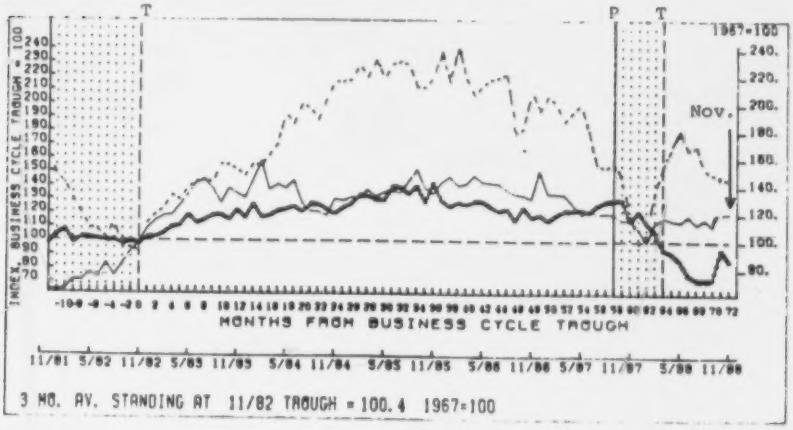
Will the high levels of overtime hours in manufacturing lead to inflationary pressures?

INVESTMENT COMMITMENTS AND INVENTORIES

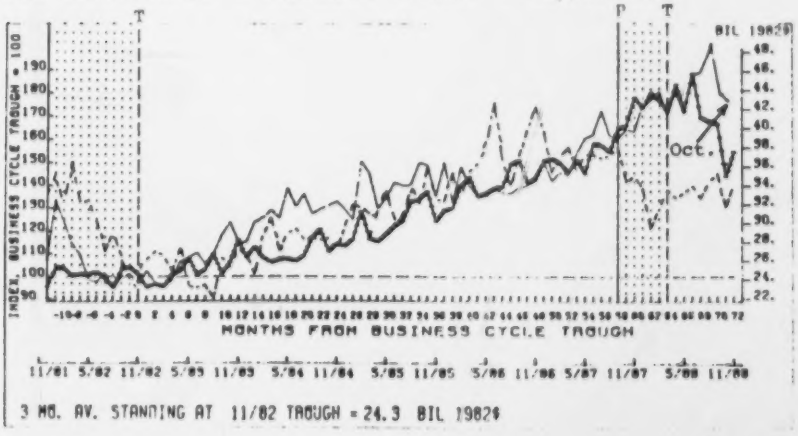
38. NEW PRIVATE HOUSING STARTS


T
P
T
THOUSAND
Nov.
INDEX, BUSINESS CYCLE TROUGH = 100
MONTHS FROM BUSINESS CYCLE TROUGH
11/81 5/82 11/82 5/83 11/83 5/84 11/84 5/85 11/85 5/86 11/86 5/87 11/87 5/88 11/88
3 MO. AV. STANDING AT 11/82 TROUGH = 1282.7 THOUSAND

39. NEW PRIVATE HOUSING PERMITS

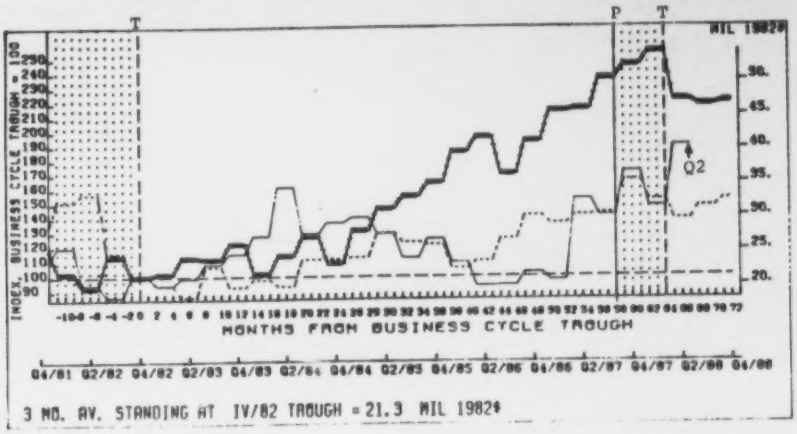


40. CONTRACTS & ORDERS, PLANT & EQUIPMENT

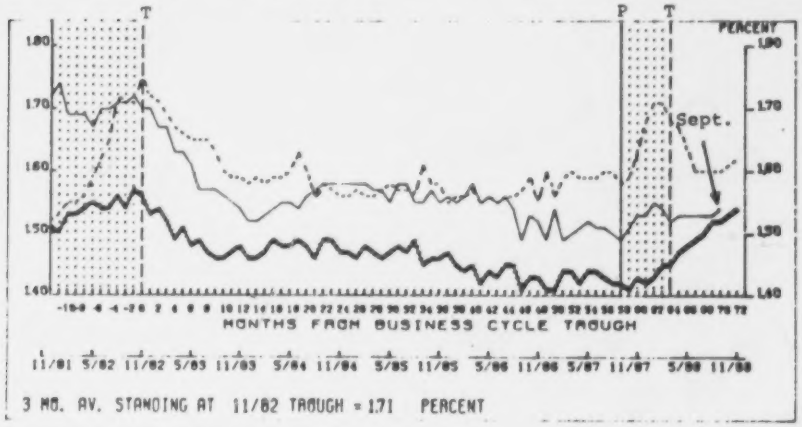

T
P
T
BIL 1982$
Oct.
INDEX, BUSINESS CYCLE TROUGH = 100
MONTHS FROM BUSINESS CYCLE TROUGH
11/81 5/82 11/82 5/83 11/83 5/84 11/84 5/85 11/85 5/86 11/86 5/87 11/87 5/88 11/88
3 MO. AV. STANDING AT 11/82 TROUGH = 24.3 BIL 1982$

INVESTMENT COMMITMENTS AND INVENTORIES, continued

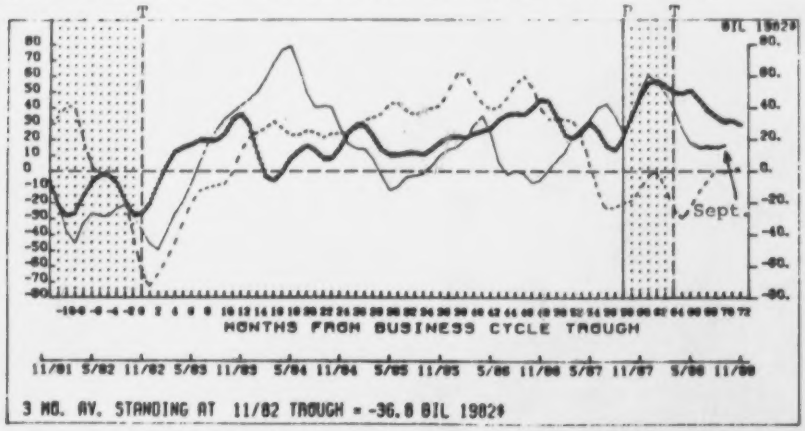
41. NEW CAPITAL APPROPRIATIONS, MANUFACTURING


T
P
T
MIL 1982$
INDEX, BUSINESS CYCLE TROUGH = 100
Q2
MONTHS FROM BUSINESS CYCLE TROUGH
Q4/81 Q2/82 Q4/82 Q2/83 Q4/83 Q2/84 Q4/84 Q2/85 Q4/85 Q2/86 Q4/86 Q2/87 Q4/87 Q2/88 Q4/88
3 MO. AV. STANDING AT IV/82 TROUGH = 21.3 MIL 1982$

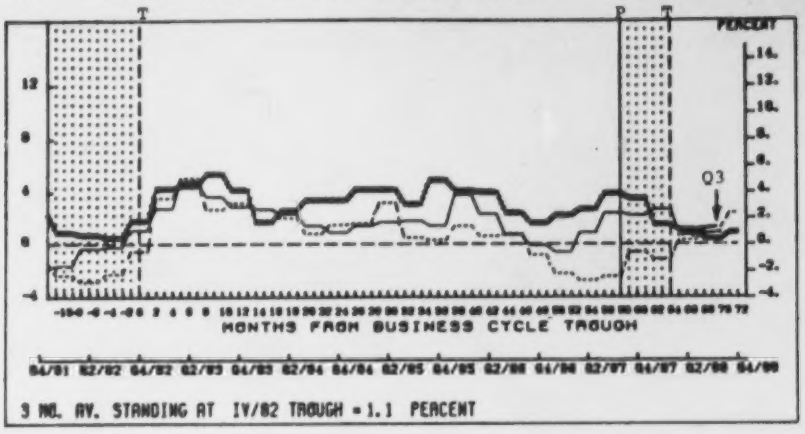
42. INVENTORY/SALES RATIO, MANUFACTURING AND TRADE


T
P
T
PERCENT
Sept.
MONTHS FROM BUSINESS CYCLE TROUGH
11/81 5/82 11/82 5/83 11/83 5/84 11/84 5/85 11/85 5/86 11/86 5/87 11/87 5/88 11/88
3 MO. AV. STANDING AT 11/82 TROUGH = 1.71 PERCENT

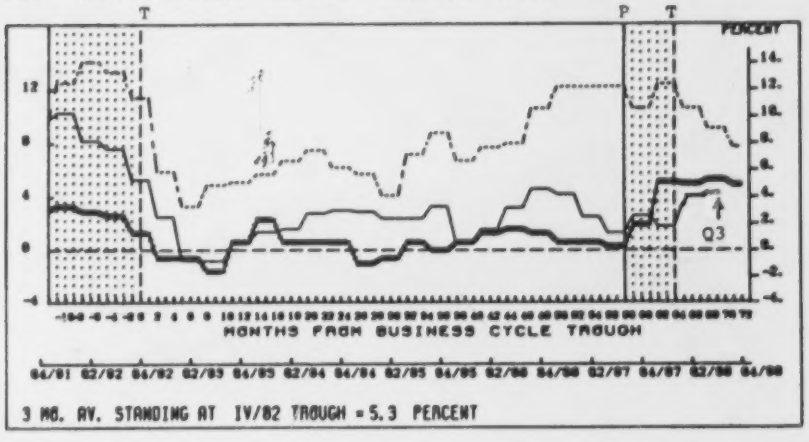
43. CHANGE IN INVENTORY ON HAND & ON ORDER



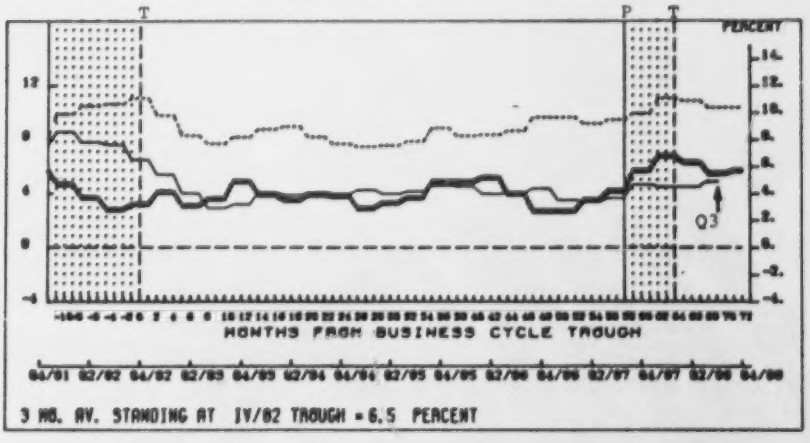
44. OUTPUT PER HOUR, GROWTH RATE



45. UNIT LABOR COSTS, GROWTH RATE

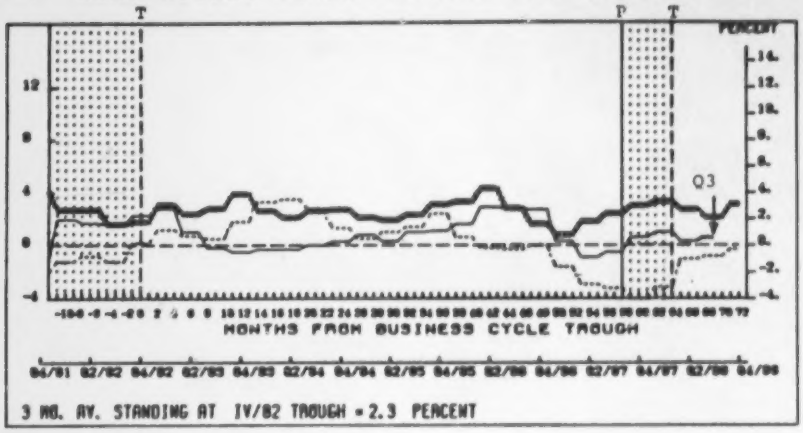


46. HOURLY COMPENSATION, GROWTH RATE

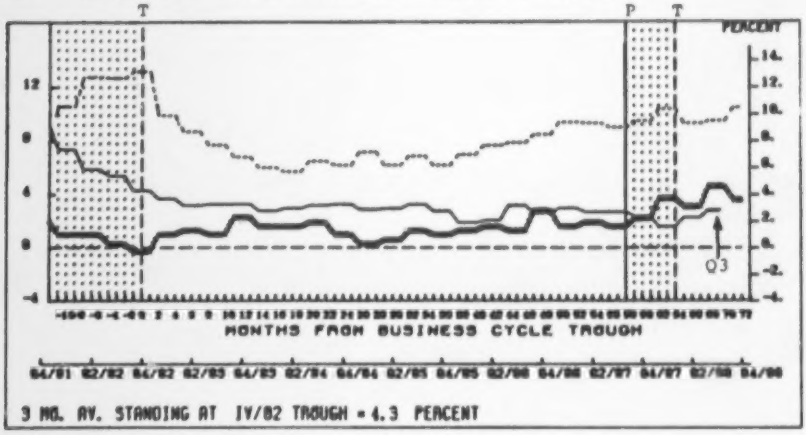


PRODUCTIVITY, WAGES, COSTS, PRICES AND PROFITS, continued

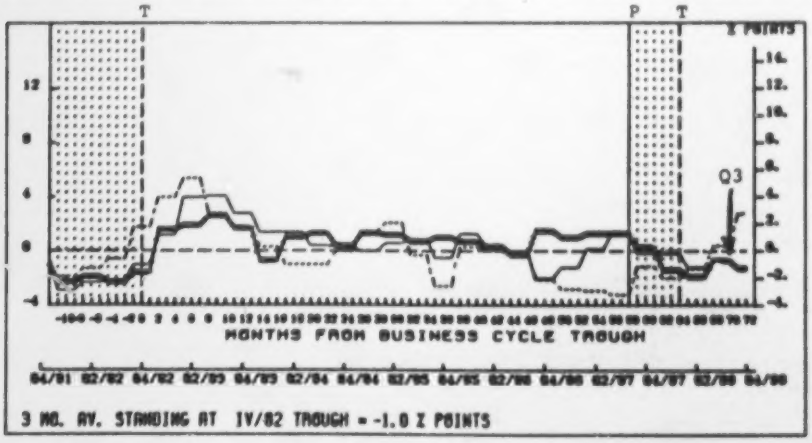
47. REAL HOURLY COMPENSATION, GROWTH RATE



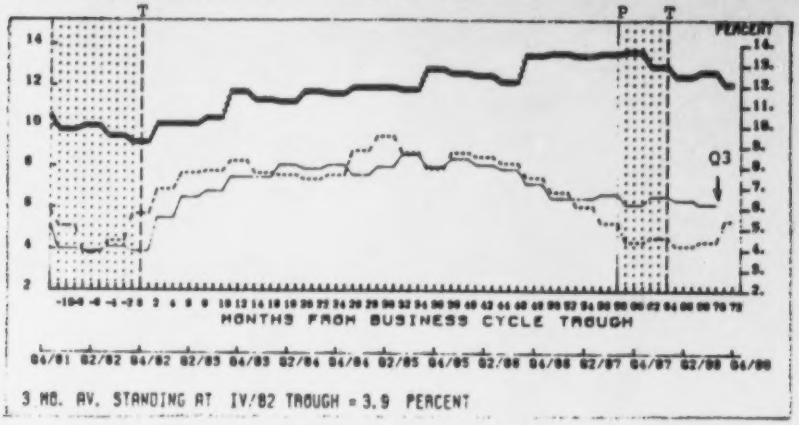
48. SELLING PRICE INDEX, GROWTH RATE



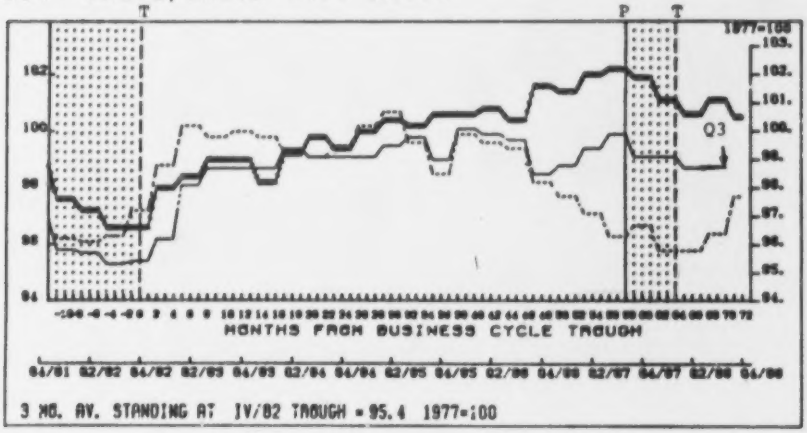
49. GROWTH RATE IN PRICES MINUS GROWTH RATE IN COSTS



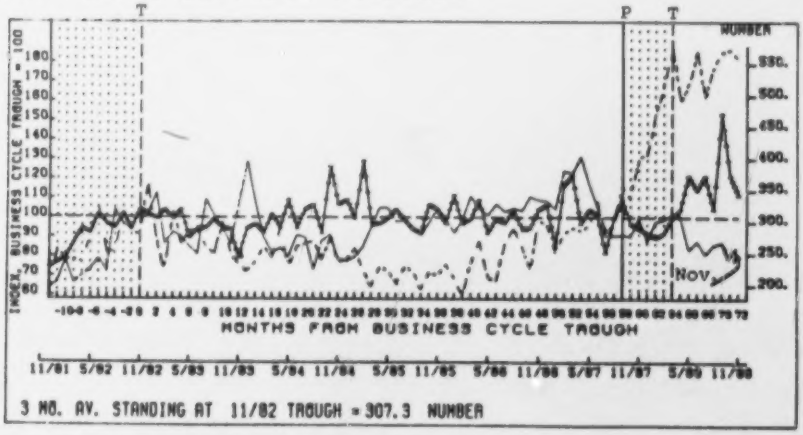
50. CORPORATE PROFIT MARGIN



51. PRICE/LABOR COST RATIO

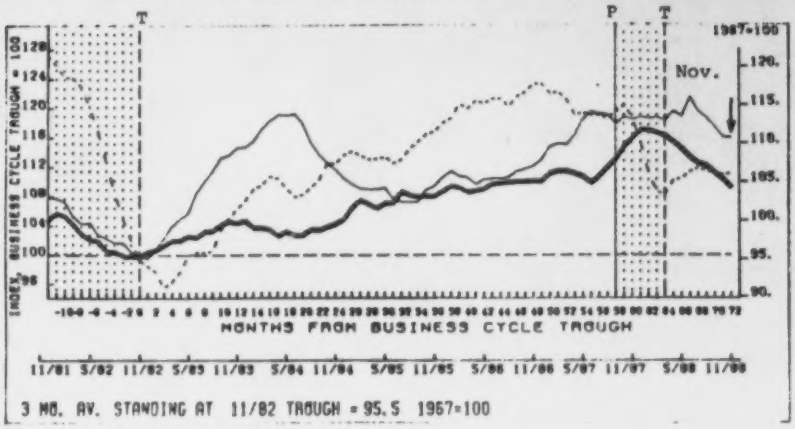


52. LARGE BUSINESS FAILURES

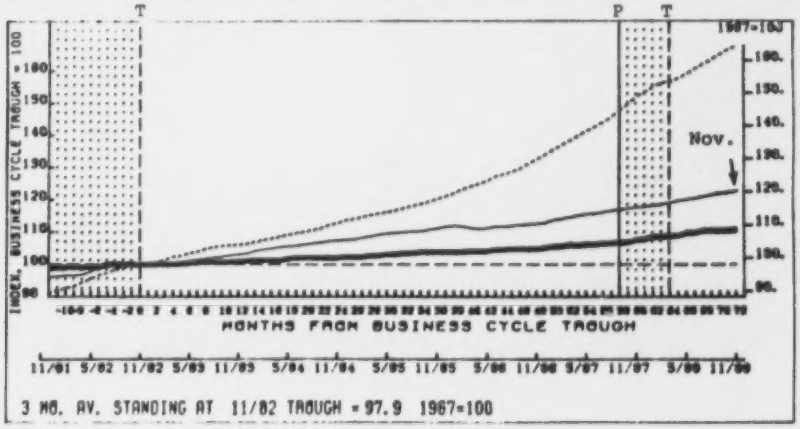


The continuing decline in business failures is a healthy sign.

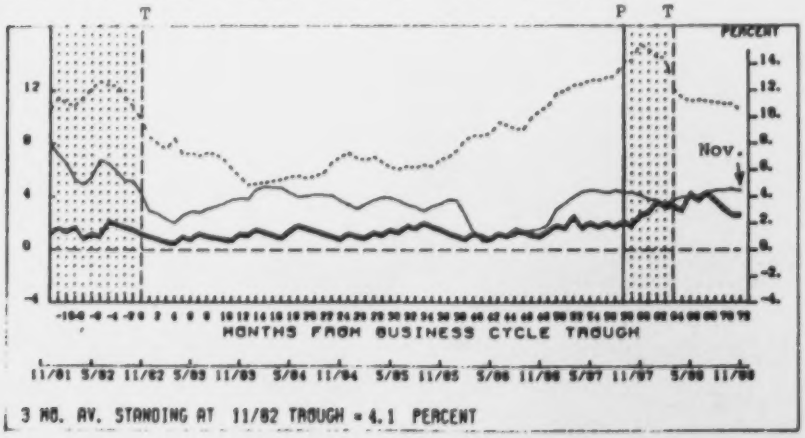
53. LEADING INDEX OF INFLATION (CIBCR)



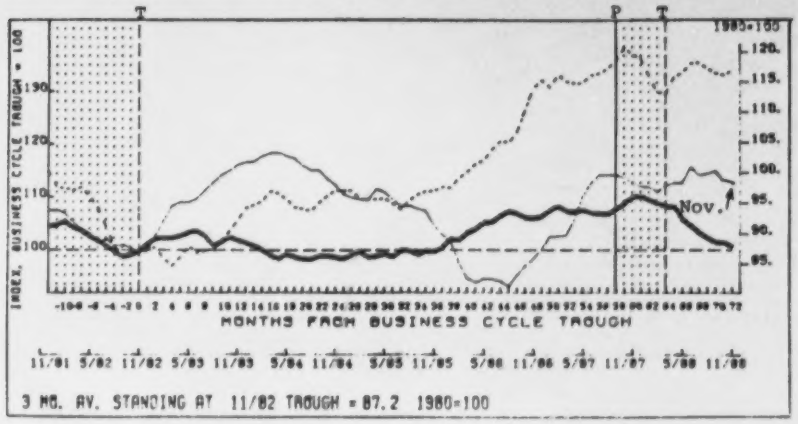
54. CONSUMER PRICE INDEX



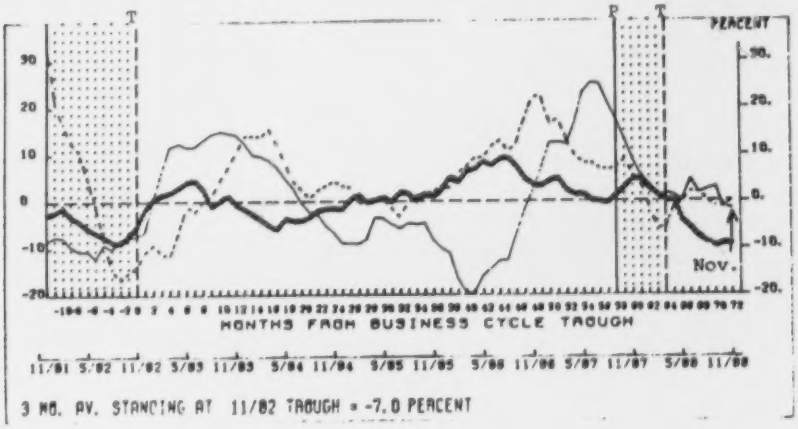
55. CONSUMER PRICE INDEX, GROWTH RATE



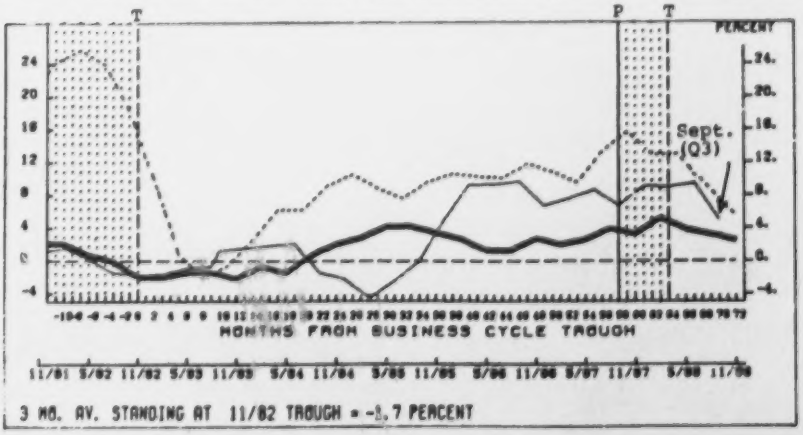
56. INDUSTRIAL MATERIALS PRICE INDEX


INDEX, BUSINESS CYCLE TROUGH = 100
1980=100
Nov.
MONTHS FROM BUSINESS CYCLE TROUGH
3 MO. AV. STANDING AT 11/82 TROUGH = 87.2 1980=100

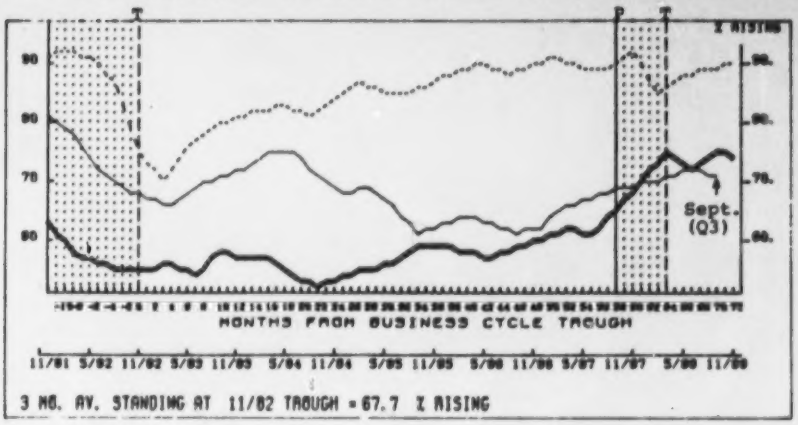
57. INDUSTRIAL MATERIALS PRICE INDEX, GROWTH RATE



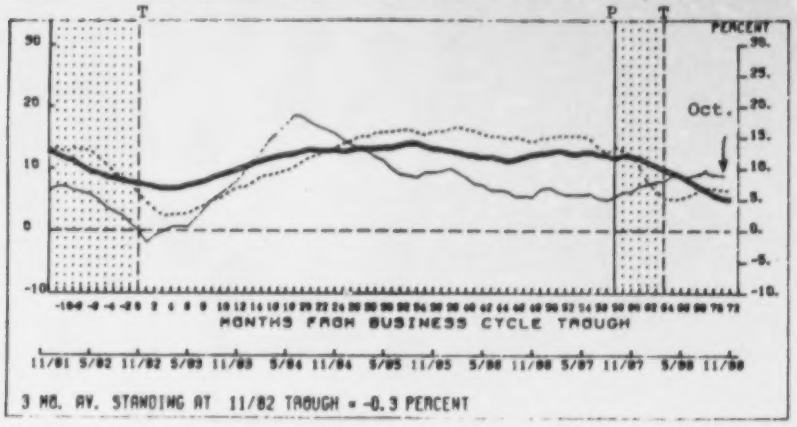
58. IMPORT PRICE INDEX (EXCLUDING FUELS), GROWTH RATE



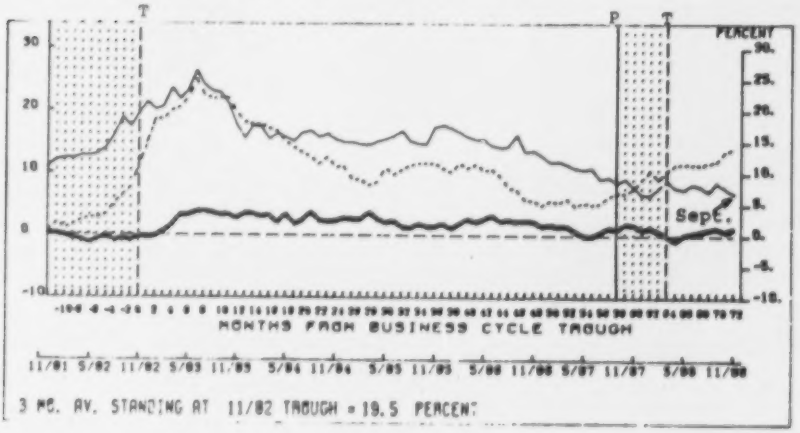
59. BUSINESSMEN'S ANTICIPATED SELLING PRICES (SURVEY)



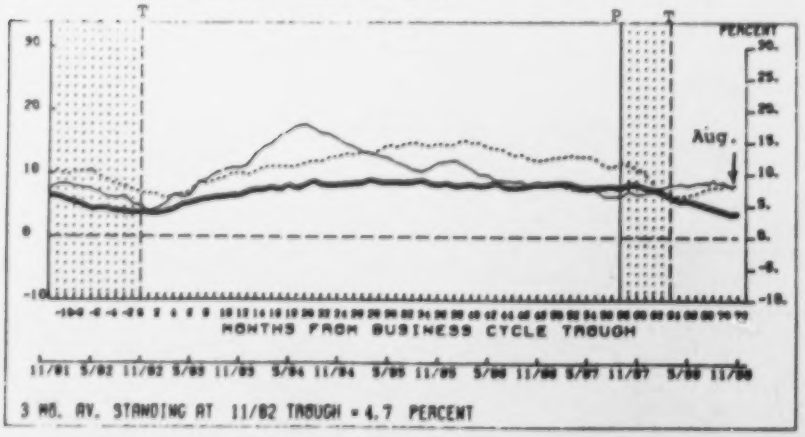
60. BUSINESS & CONSUMER DEBT, GROWTH RATE



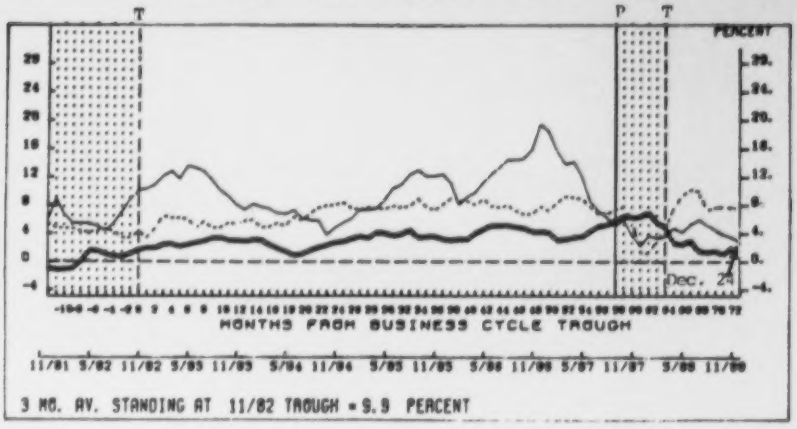
61. FEDERAL DEBT, GROWTH RATE



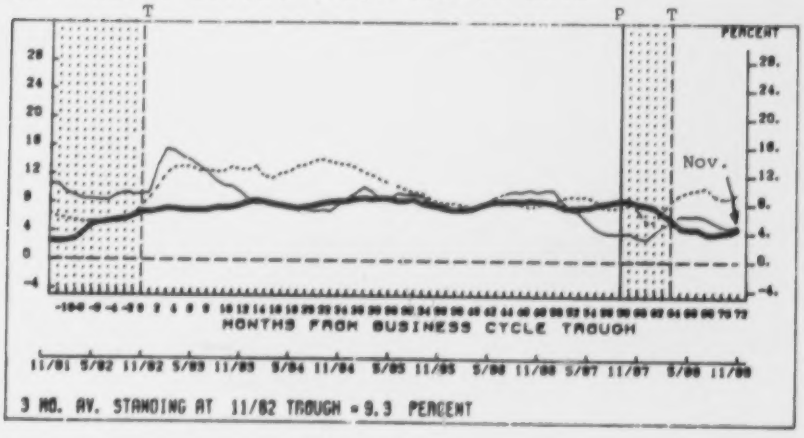
62. TOTAL DEBT, GROWTH RATE



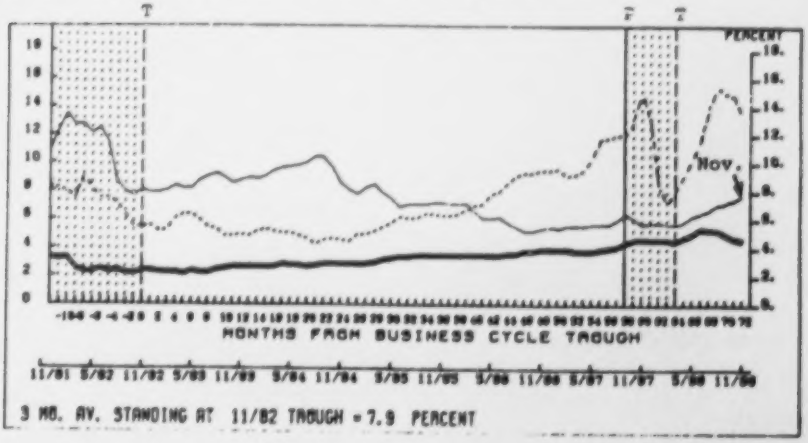
63. MONEY SUPPLY (M1), GROWTH RATE



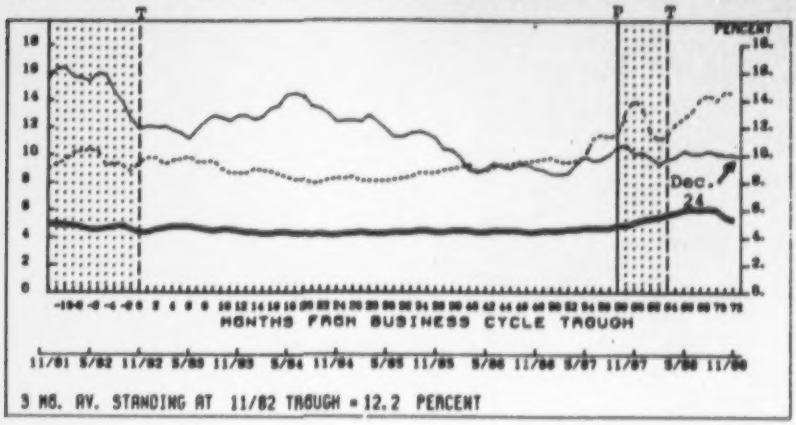
64. MONEY SUPPLY (M2), GROWTH RATE



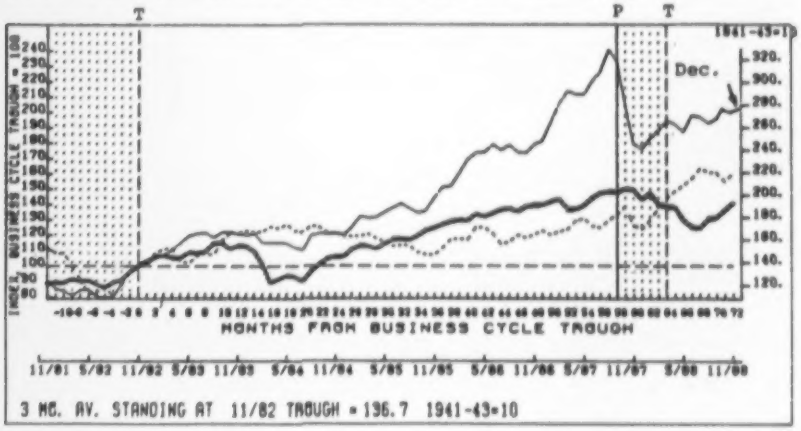
65. TREASURY BILL RATE (3-MONTH)



66. NEW CORPORATE BOND YIELD (AA)


T
P
T
PERCENT
Dec. 24
MONTHS FROM BUSINESS CYCLE TROUGH
11/81 5/82 11/82 5/83 11/83 5/84 11/84 5/85 11/85 5/86 11/86 5/87 11/87 5/88 11/88
3 MO. AV. STANDING AT 11/82 TROUGH = 12.2 PERCENT

67. COMMON STOCK PRICE INDEX (S&P 500)



ABOUT THE CENTER FOR INTERNATIONAL BUSINESS CYCLE RESEARCH

The Center for International Business Cycle Research (CIBCR), established in 1979, specializes in the study of trends and fluctuations in economic growth and inflation in the United States and other countries. The analysis contained in this report is the result of its ongoing research programs on U.S. business cycles. Readers are invited to submit comments and suggestions concerning this publication. In addition, readers wishing to secure data compiled by the Center on the eight other major industrial countries or copies of research reports may do so by communicating with:

Center for International Business Cycle Research
Uris Hall, Columbia University
New York, NY 10027
Telephone: (212) 280-2916

ABOUT THIS REPORT

RECESSION-RECOVERY WATCH is a bimonthly report designed to analyze current business cycle trends in terms of previous recession or recovery patterns in the United States.

This report was begun in August 1979, under the direction of Dr. Geoffrey H. Moore, following the methodology for measuring recessions developed at the National Bureau of Economic Research. Although no forecasts are made, the materials in this report do permit glimpses into the future: first by analyzing the behavior of various leading indicators; second, by indicating what is likely to happen in terms of what did happen in previous recessions and recoveries.

The leading indicators used in this report are relevant to future output and employment because they represent actions taken, like the placing of orders, that will result in future output, or because they reflect factors, like profits, that influence future decisions on output. The record of what happens during the latter stages of business cycles is relevant because of the family resemblance among successive cycles, a resemblance that has its origin in the processes by which business cycles are generated. Every business cycle has its own surprises, partly because of policy actions taken, but many developments are not surprising, having occurred many times before. The historical comparisons contained in this report help one anticipate what is typical and distinguish it from the unusual.

Other CIBCR publications include International Economic Indicators, a monthly 70-page data compilation on leading and coincident indicators for nine industrial countries. Monthly press releases are issued on a leading index of inflation and a leading employment index for the United States.

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RECESSION - RECOVERY WATCH...

**A Bimonthly Report
Designed to Assist in the Evaluation
of Current Business Conditions**

Published by the Center for International Business Cycle Research,
Columbia Business School, Columbia University, New York, NY 10027

Dr. Geoffrey H. Moore
Director

Vol.11, No. 1
February 1989

Summary

There are times when a Recession-Recovery Watch should also become an Inflation Watch. This is one of those times. The CIBCR leading inflation index perked up again in December and January, reversing what proved to be a very short-lived down-signal last September (Chart A). Inflationary pressures in the labor market, the cost of materials, and import prices are continuing, although some of the leading inflation indicators dipped in February.

Our leading indexes for the real economy continue to forge ahead. Both the long-leading and the short-leading indexes reached new highs in December (see Chart B). In terms of growth rates the long-leader was rising faster at the end of 1988 (6.2% at annual rate) than the short-leader (4.2%). No sign of recession there, nor even much indication of a slowdown. In addition, our leading index of U.S. export demand, based on the CIBCR leading indexes for nine countries, continues to do well. The latest figures produced a growth rate of 7.5% in November. Much of the strength comes from the Pacific region, where the leaders are flying high. For Europe, the leaders are less exuberant, but not depressed. As a result, apart from the effect of exchange rate changes, the growth in U.S. exports seems likely to continue to support the economy in 1989 (see Chart C).

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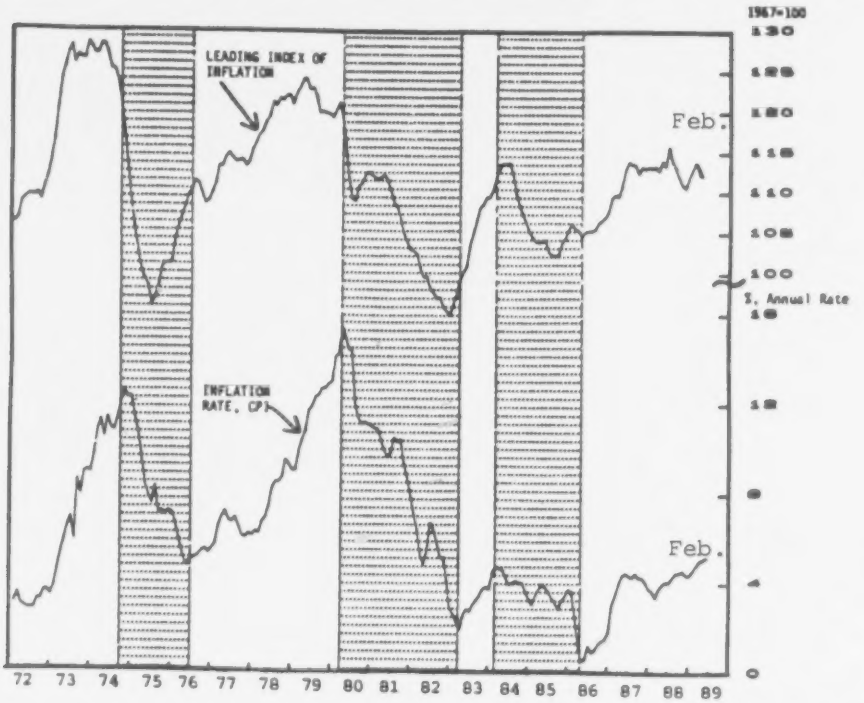
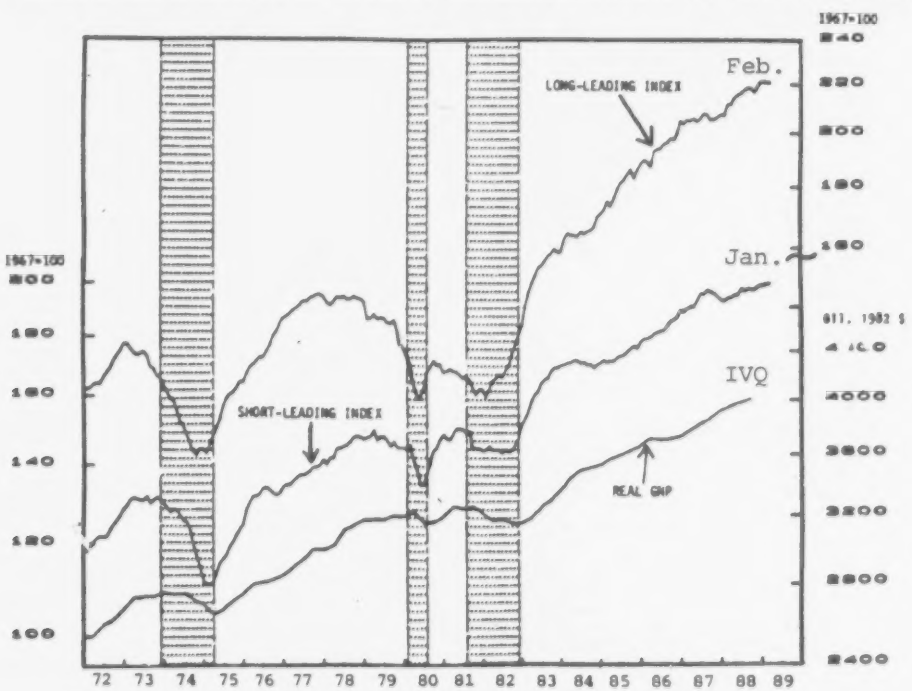
CHART A.
LEADING INDEX OF INFLATION AND CPI INFLATION RATE, 1973-88



Shaded areas are periods of disinflation, based upon the six-month smoothed growth rate in the consumer price index for all consumers (shown above).

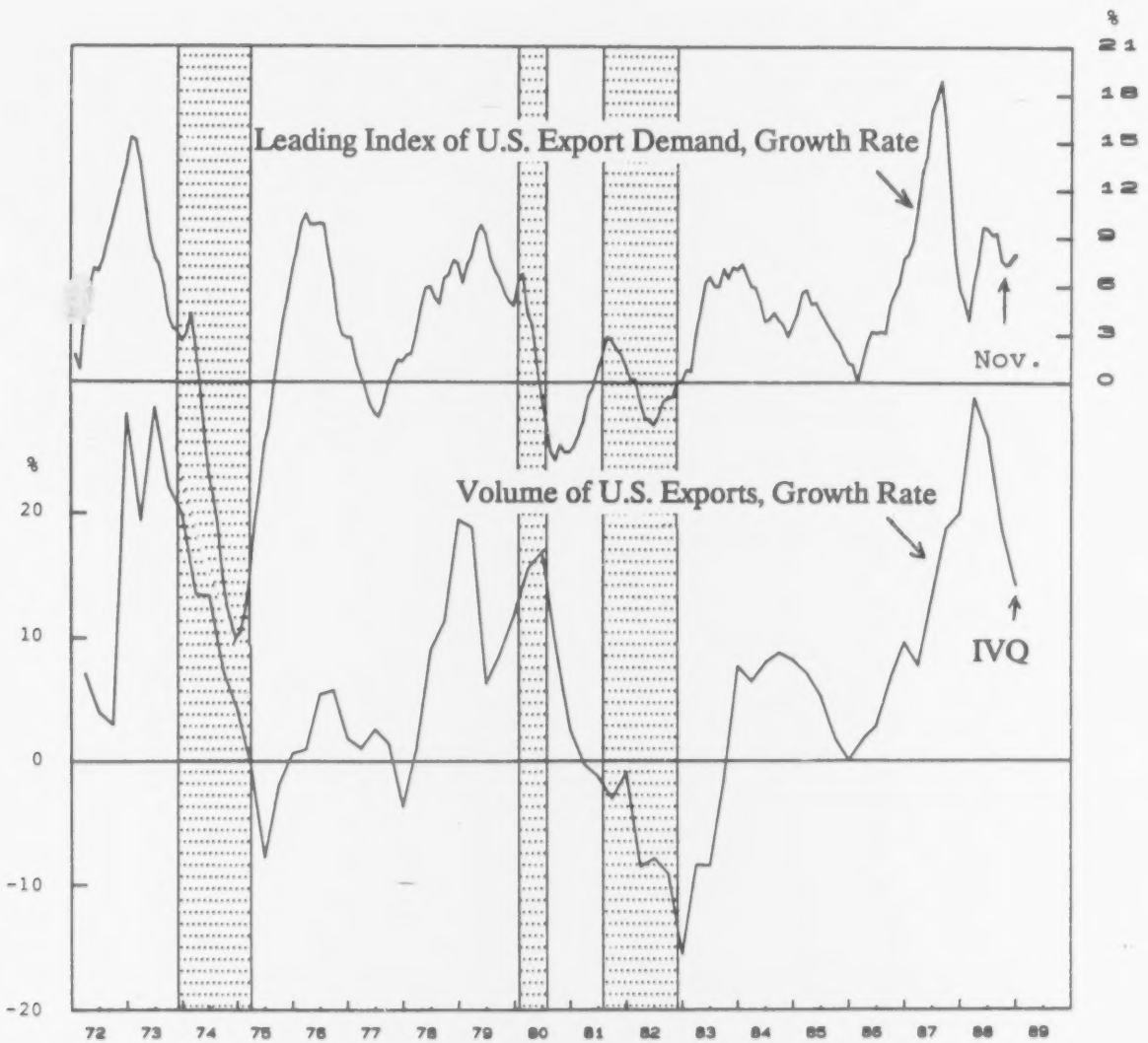
CHART B.
LONG-LEADING AND SHORT-LEADING INDEXES AND REAL GNP



Shaded areas are business cycle recessions.

Center for International Business Cycle Research, Columbia University

CHART C.
GROWTH IN U.S. EXPORTS AND IN LEADING INDEX OF U.S. EXPORT DEMAND



Shaded areas are U.S. business cycle recessions. Leading Index growth rate is the six-month smoothed rate. Growth rate in Exports (constant dollars) is the percent change from same quarter year ago.

Center for International Business Cycle Research, Columbia University

Signals of Inflation and Interest Rates

After a brief interruption from September to November, the leading index of inflation began climbing again. In January its growth rate passed the 1.0% level that has often signaled an upswing. What has been the track record of such signals? During the past forty years most of the major swings in inflation were captured in timely fashion by the signals (Chart D). Indeed, the signal system was successful in giving advance warnings about 80% of the time. The signals do not, of course, yield a definite forecast of what the inflation rate will be X months from now. Nevertheless, timely warnings of the direction of trend serve a useful purpose, especially since the record of economists' forecasts of inflation show a clear tendency to lag behind events.

Many of the same factors that give rise to inflation also give rise to swings in interest rates. Measures of the growth of debt, tightness in labor and commodity markets, demand for imports, and price expectations – all of which are included in the leading inflation index – have a bearing not only on future inflation but also on future interest rates. Hence signals based on the leading inflation index have a good record in signaling upswings and downswings in short-and long-term interest rates (Charts E and F). Investors have good reason to watch the leading inflation index.

CHANGES IN THIS ISSUE

As readers of Recession-Recovery Watch know, the record of previous business cycle expansions provides a guide to the future prospects of the current expansion. The idea is, of course, incorporated in the Recession-Recovery Watch pattern charts.

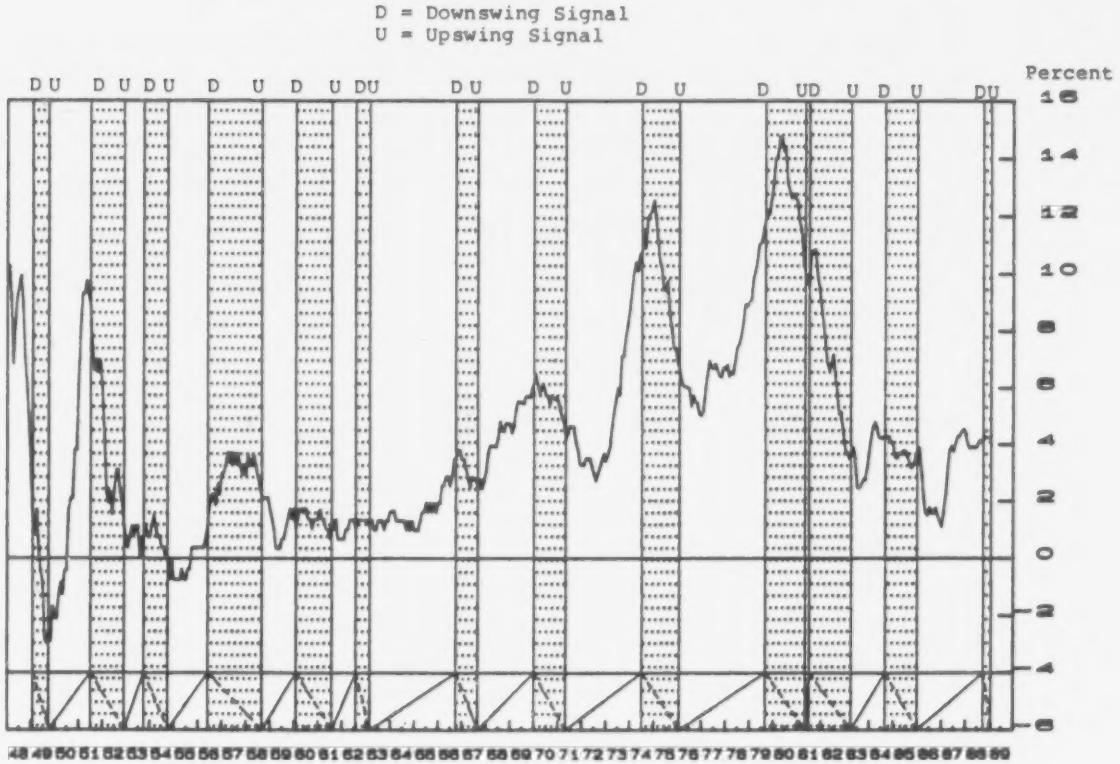
The charts cover more than 70 indicators and compare the current expansion with the only recent expansion that was longer than the current one – the 1961-69 expansion that lasted 106 months. Starting with this issue, the 58 month 1975–80 expansion is no longer shown on the charts. The expansions that are excluded covered the following periods: 1949–53 (45 months); 1954–57 (39 months); 1958–60 (24 months); 1970–73 (36 months); 1975–80 (58 months); and 1980–81 (12 months).

Beginning with this issue, Recession-Recovery Watch becomes a quarterly publication (see enclosed notice).

Also starting with this issue, the Recession- Recovery Watch tables are omitted. The latest figures are shown directly on the charts. As readers are aware, the left-hand scale on the charts is the common vertical scale along which the upswings are compared: For actual level charts, this represents percentages of business cycle trough standings; for growth rate charts, it shows growth rates in percent for both current and past upswings. (For further details, see the section on How to Read Charts, page 7). The standing is a three-month average centered on the trough month. In the case of quarterly series, the trough standing is the figure for the business cycle trough quarter. The monthly and quarterly trough dates are those established by the National Bureau of Economic Research.

Finally, readers will notice an improvement in the presentation of this publication, much of which is due to the use of our new desktop publishing system, set up by the Alphametrics Corporation of Bala Cynwyd, PA.

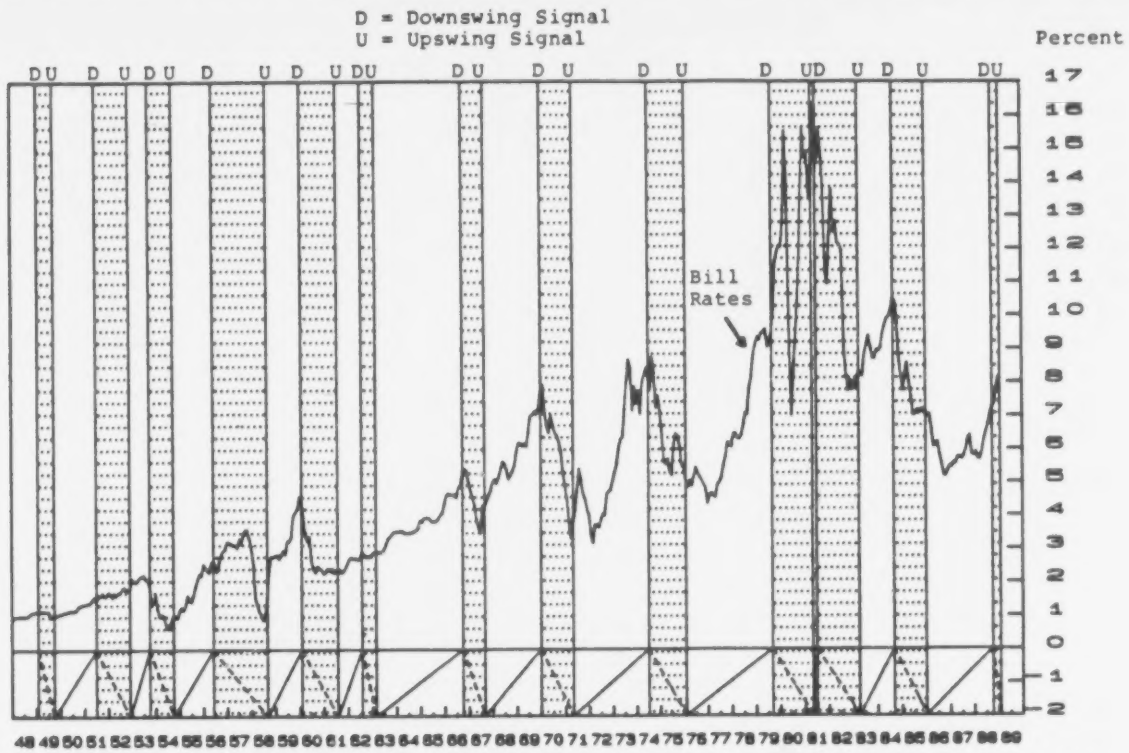
CHART D.
CONSUMER PRICE INFLATION RATES AND LEADING INFLATION INDEX SIGNALS



Note: Signals are based on the six-month smoothed growth rate in the CIBCR's Leading Inflation Index. The CPI inflation rate is the change from same month year ago in the price index for all urban consumers, Bureau of Labor Statistics.

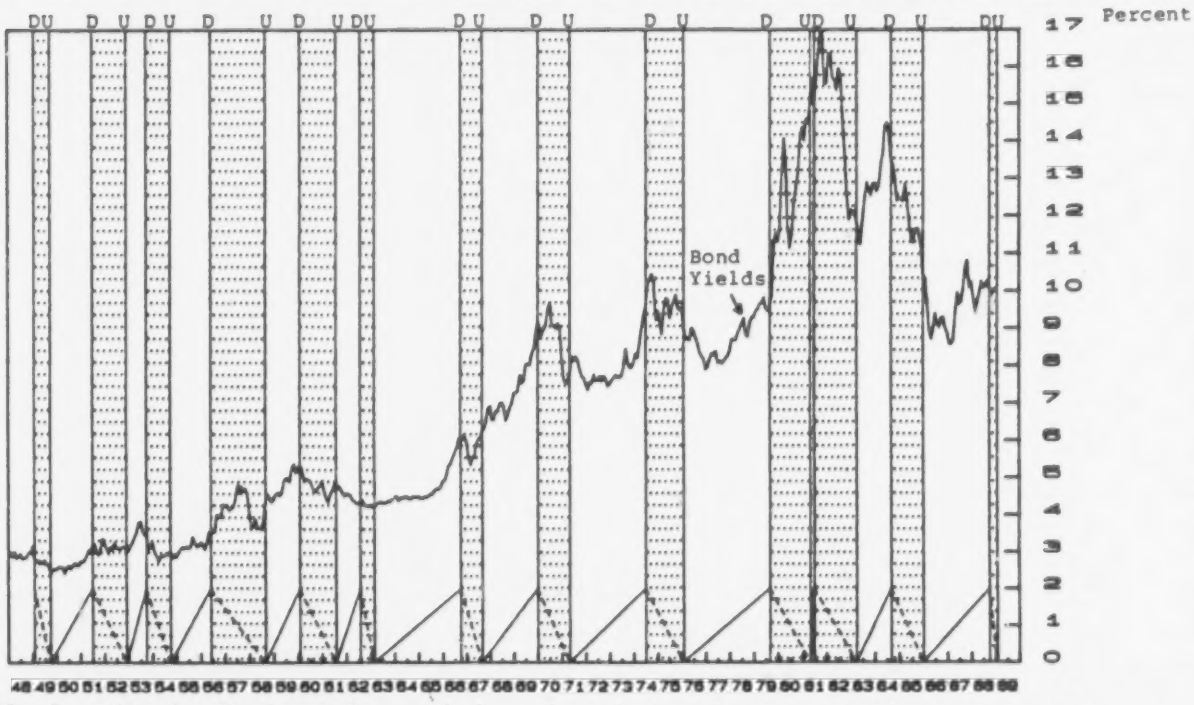
Center for International Business Cycle Research, January 1989

CHART E. TREASURY BILL RATES AND LEADING INFLATION INDEX SIGNALS



Note: Signals are based on the six-month smoothed growth rate in the CIBCR's Leading Inflation Index. The bill rate is the discount rate on new issues of 91-day Treasury bills, compiled by Federal Reserve Board.

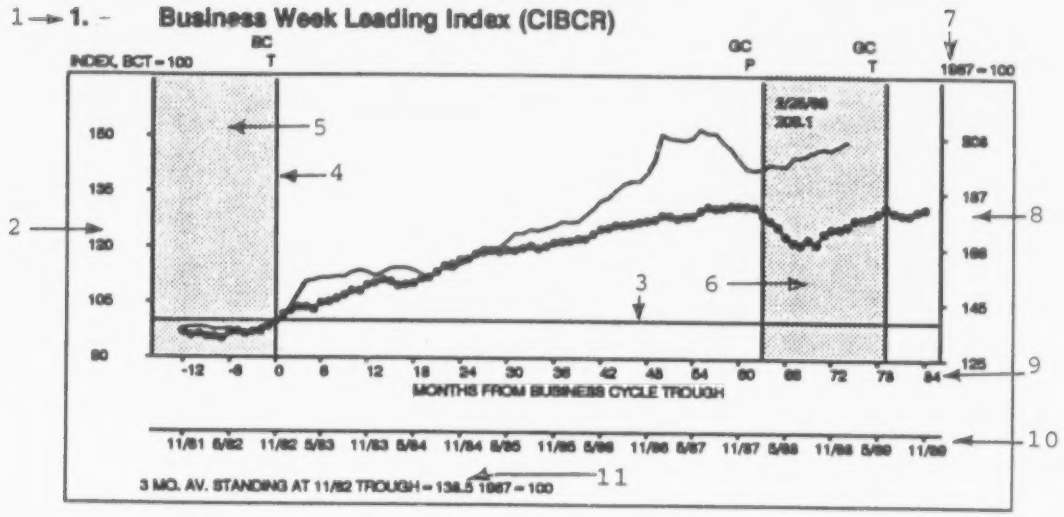
CHART F.
CORPORATE BOND YIELDS AND LEADING INFLATION INDEX SIGNALS



Signals are based on the six-months smoothed growth rate in the CIBCR's Leading Inflation Index. The bond yield is for new issues of high grade corporate bonds, compiled by Citibank and U.S. Treasury.

Center for International Business Cycle Research, January 1989

HOW TO READ ACTUAL LEVEL CHARTS



1 CHART NUMBER AND TITLE: If the title does not say "growth rate," then the chart is for the actual level rather than for the growth rate.

2 LEFT-HAND SCALE measures movements in both current and past expansion, as a percentage of business cycle trough standings. This is the common vertical scale along which the expansions are compared.

3 HORIZONTAL LINE shows levels at reference trough (100) for current and past expansions.

4 VERTICAL LINE represents reference trough dates for current and past expansion, which are all aligned so that the business cycle trough (BCT) dates are positioned on the vertical line; i.e., the past expansion is aligned with the current trough to facilitate comparison.

5 LEFT SHADED AREA represents a recessionary period.

6 RIGHT SHADED AREA, between the growth cycle peak (GCP) and growth cycle trough (GCT) represents the 1966-67 growth recession.

7 UNITS for right-hand scale refer only to the current expansion.

8 RIGHT-HAND SCALE refers only to the current expansion. It is a transformation of the left-hand scale to show the current expansion in original units rather than with trough standing at 100.

9 HORIZONTAL SCALE measures months from business cycle trough (BCT) for both the current and past expansions. This is the common time scale along which the expansions are compared.

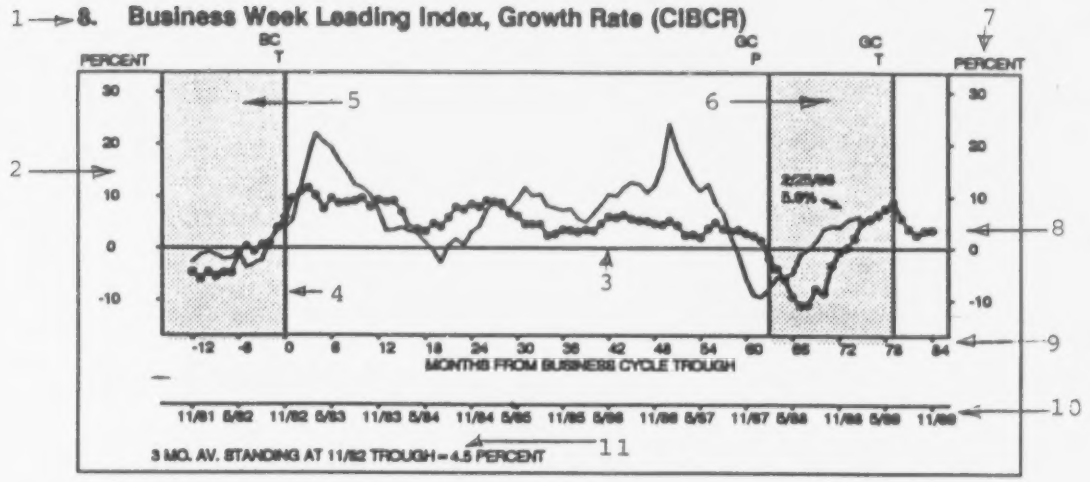
10 ACTUAL DATES refer only to the current expansion.

11 STANDING AT THE TROUGH is the level at which the current expansion began, and is calculated as the 3-month average centered on the trough month.

o-o-o-o-o-o-o-o LINE WITH CIRCLES indicates 1961–69 expansion.

———————— SOLID LINE indicates the current expansion, which began in November 1982, or Q4, 1982.

HOW TO READ GROWTH RATE CHARTS



1 CHART NUMBER AND TITLE: If the title says "growth rate," then the chart is for the 6-month smoothed growth rate, rather than the actual level. These growth rates are obtained by dividing the current month's figure by the average for the 12 preceding months, and expressing the result as a compound annual rate.

2 LEFT-HAND SCALE (same as the right-hand scale) shows growth rates in percent for both current and past expansions.

3 HORIZONTAL LINE is drawn at 0% growth rate, a natural reference level for both current and past expansions.

4 VERTICAL LINE represents reference trough dates for current and past expansions, which are aligned so that the business cycle trough (BCT) dates are positioned on the vertical line; i.e., the trough of the past expansion is aligned with the current trough to facilitate comparison.

5 LEFT SHADED AREA represents a recessionary period.

6 RIGHT SHADED AREA, between the growth cycle peak (GCP) and growth cycle trough (GCT), represents the 1966-67 growth recession.

7 UNITS for both scales in percent refer to growth rates for both current and past expansions.

8 RIGHT-HAND SCALE (same as left-hand scale) shows growth rates in percent for both current and past expansions.

9 HORIZONTAL SCALE measures months from business cycle trough (BCT) for both current and past expansions. This is the common time scale along which the expansions are compared.

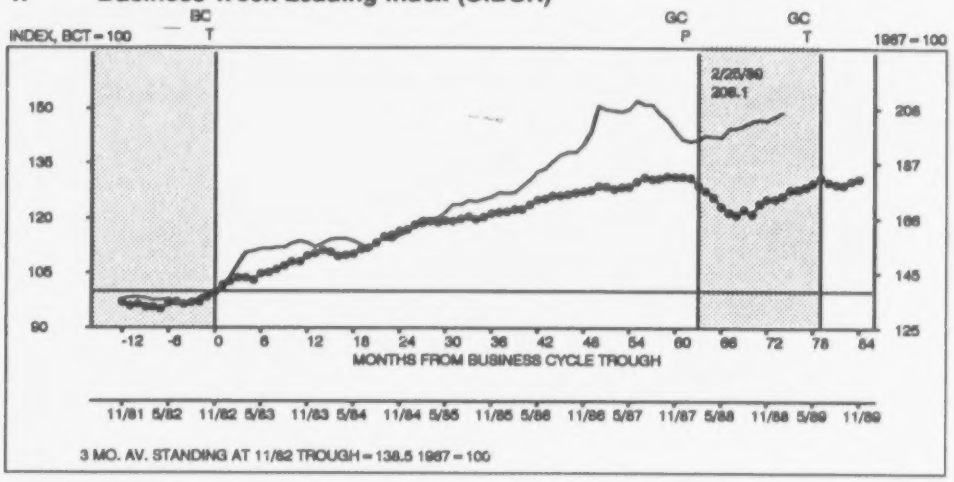
10 ACTUAL DATES refer only to the current expansion.

11 STANDING AT THE TROUGH is the growth rate at the time the current expansion began, and is calculated as the 3- month average centered on the trough month.

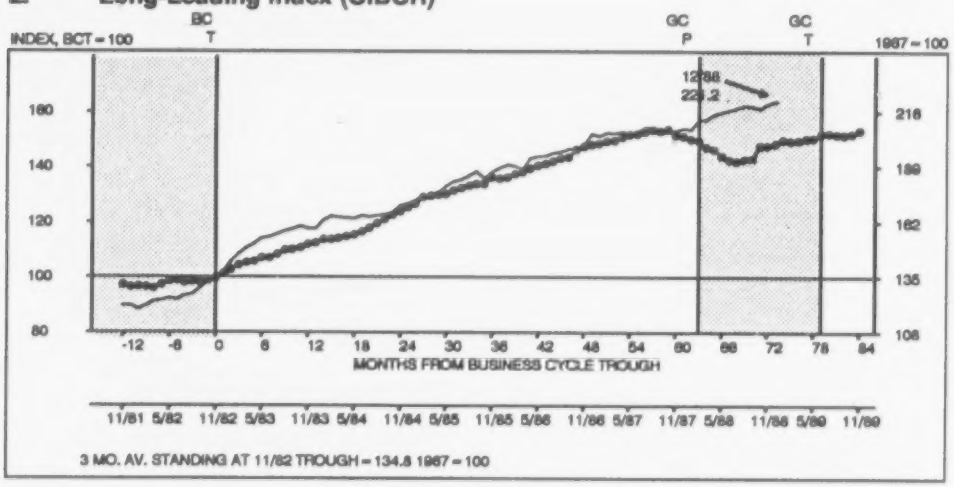
•••••••••• LINE WITH CIRCLES indicates 1961–69 expansion.

———— SOLID LINE indicates the current expansion, which began in November 1982, or Q4 1982.

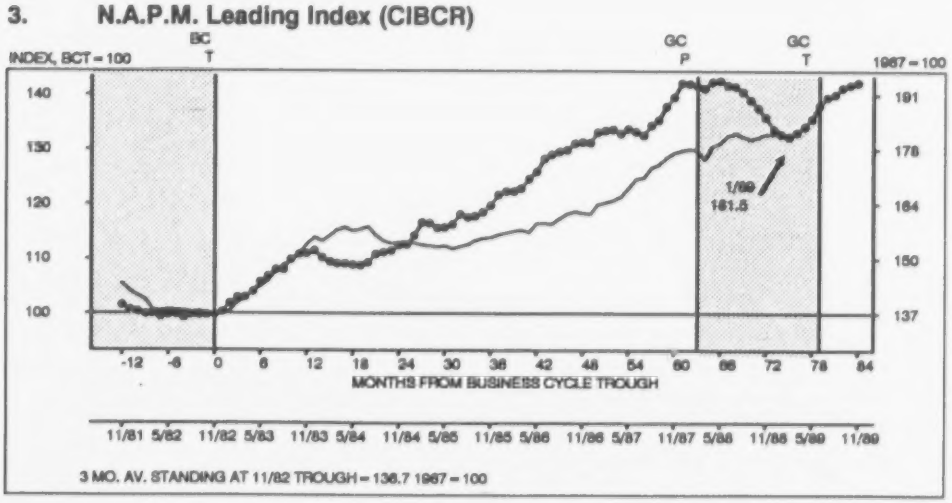
1. Business Week Leading Index (CIBCR)



2. Long-Leading Index (CIBCR)

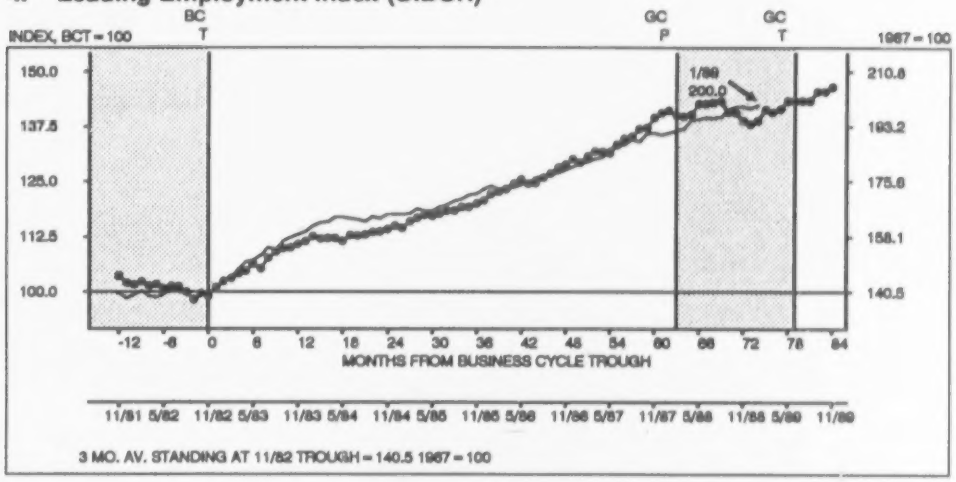


3. N.A.P.M. Leading Index (CIBCR)



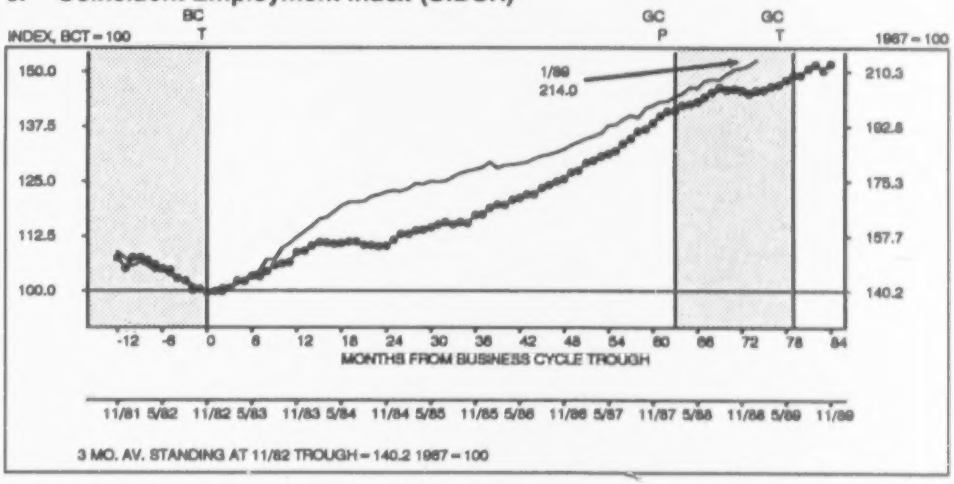
The Business Week Leading Index anticipated the 1987 stock market crash, but the long-leading and NAPM indexes were scarcely affected.

4. Leading Employment Index (CIBCR)

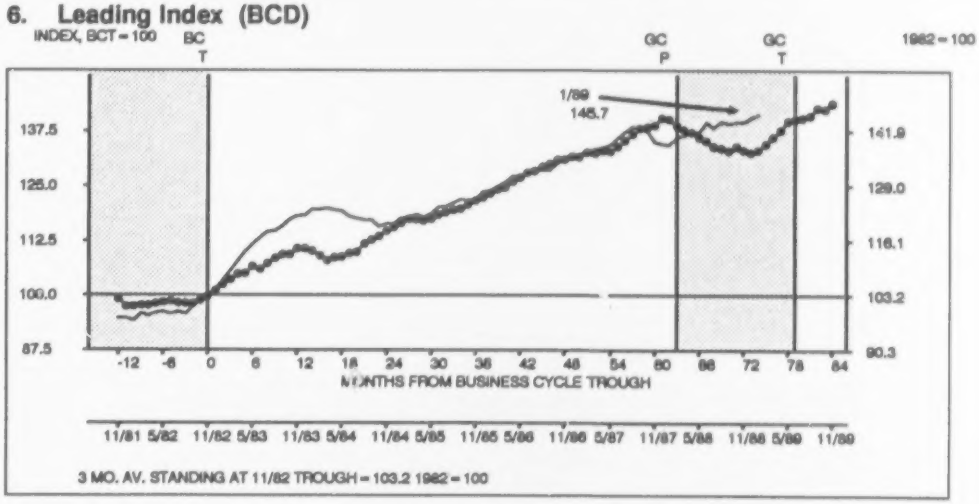


The market crash didn't affect employment much either.

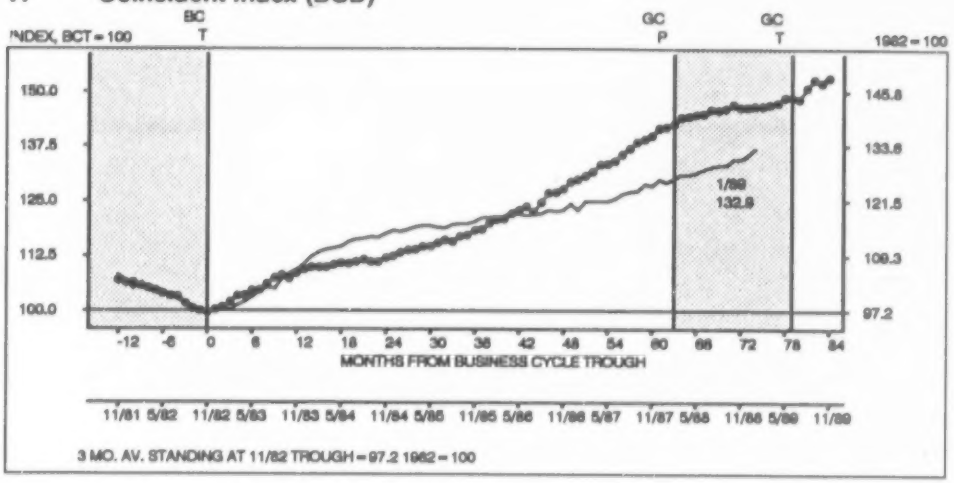
5. Coincident Employment Index (CIBCR)



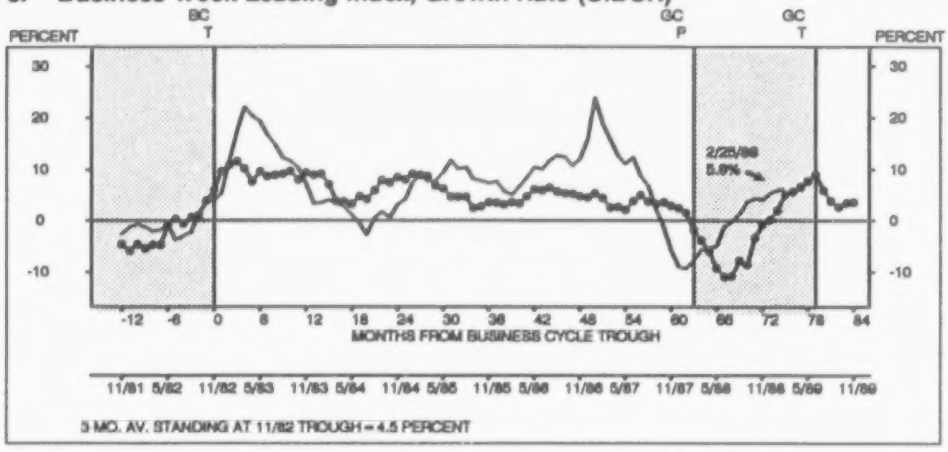
6. Leading Index (BCD)



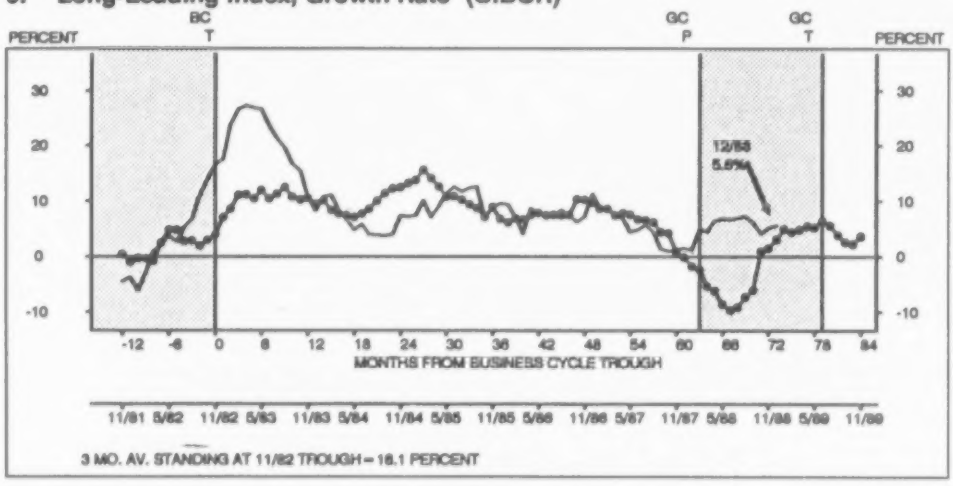
7. Coincident Index (BCD)



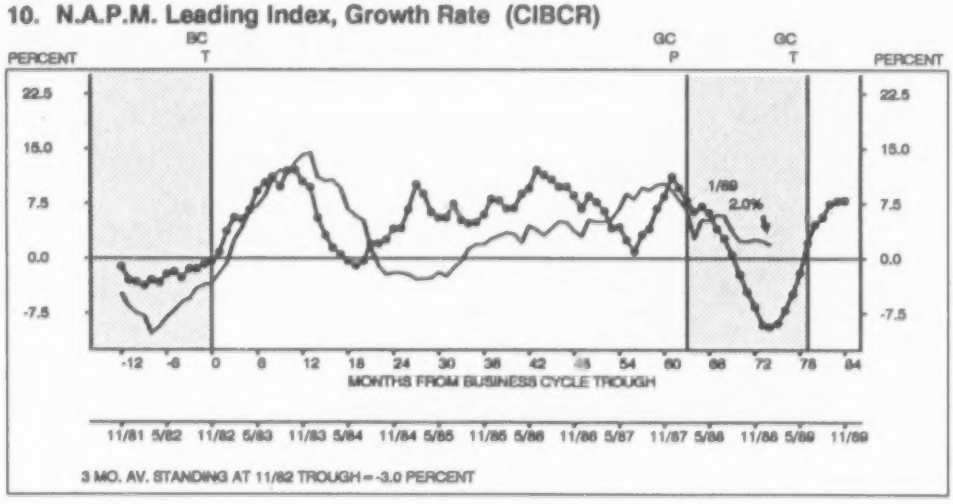
8. Business Week Leading Index, Growth Rate (CIBCR)



9. Long-Leading Index, Growth Rate (CIBCR)

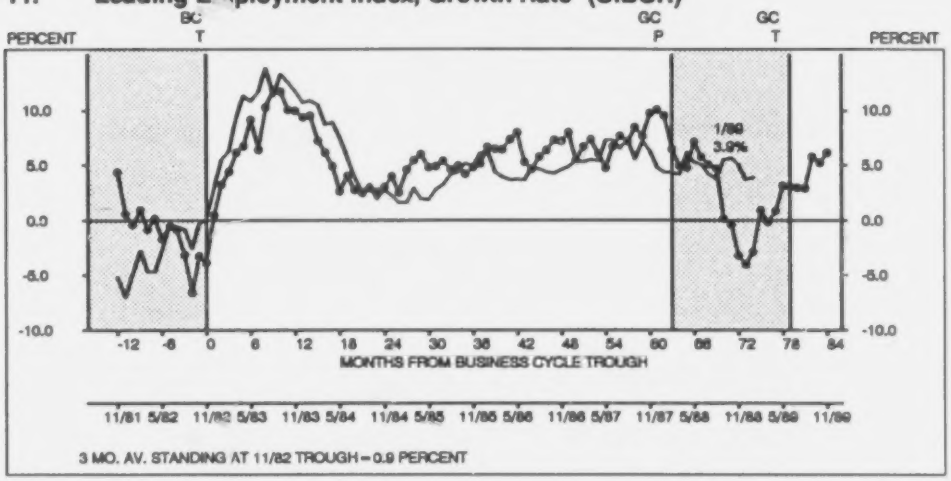


10. N.A.P.M. Leading Index, Growth Rate (CIBCR)

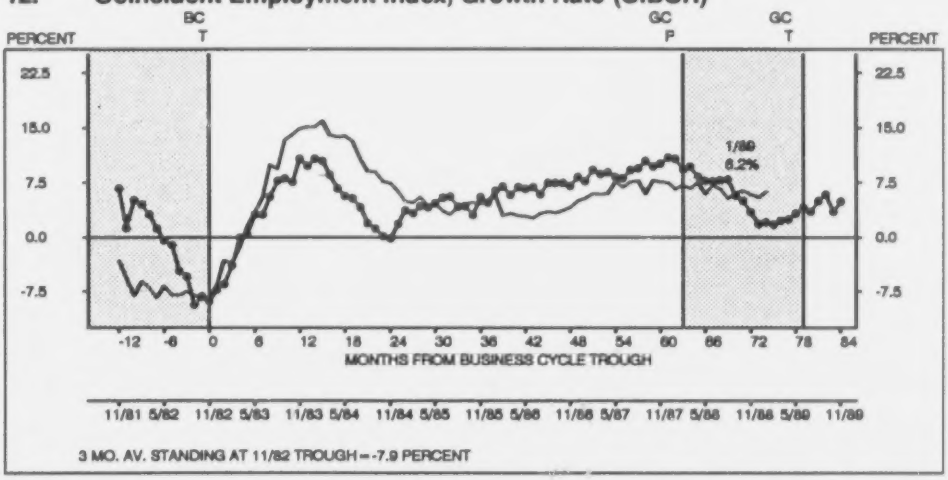


Prospects for growth: moderately good.

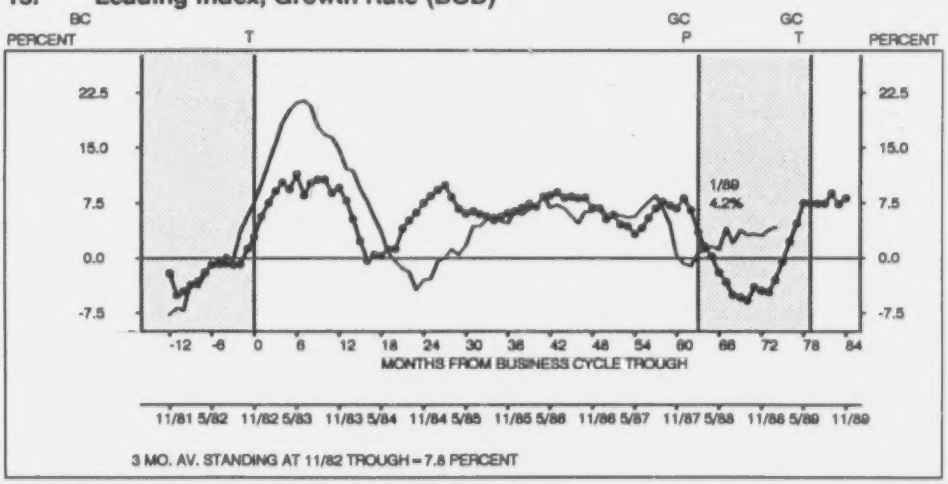
11. Leading Employment Index, Growth Rate (CIBCR)



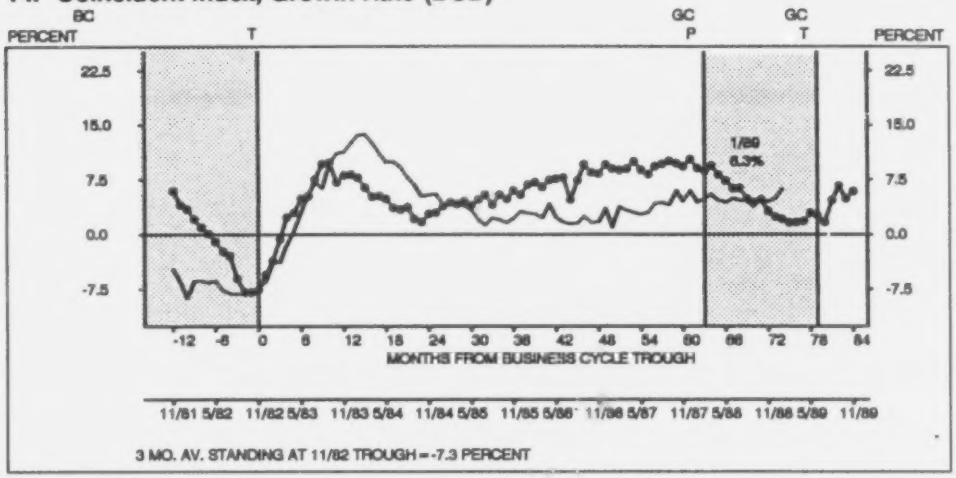
12. Coincident Employment Index, Growth Rate (CIBCR)



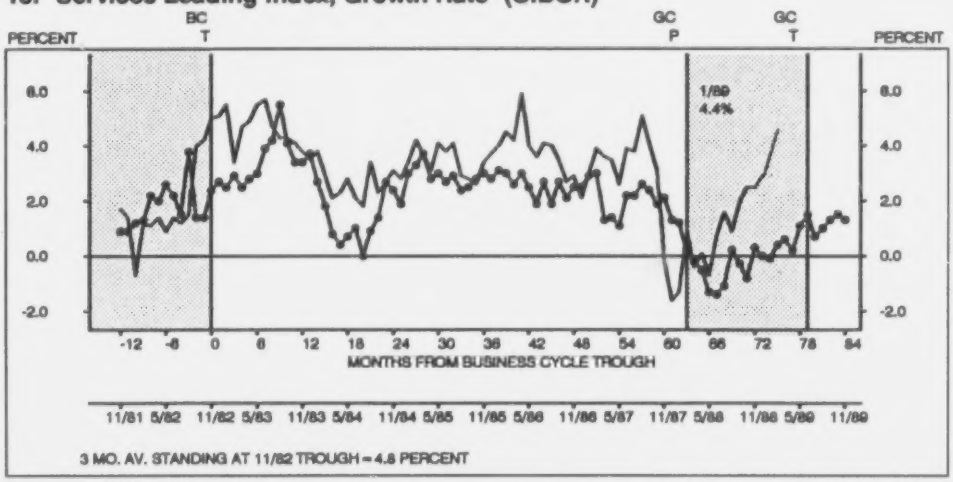
13. Leading Index, Growth Rate (BCD)



14. Coincident Index, Growth Rate (BCD)



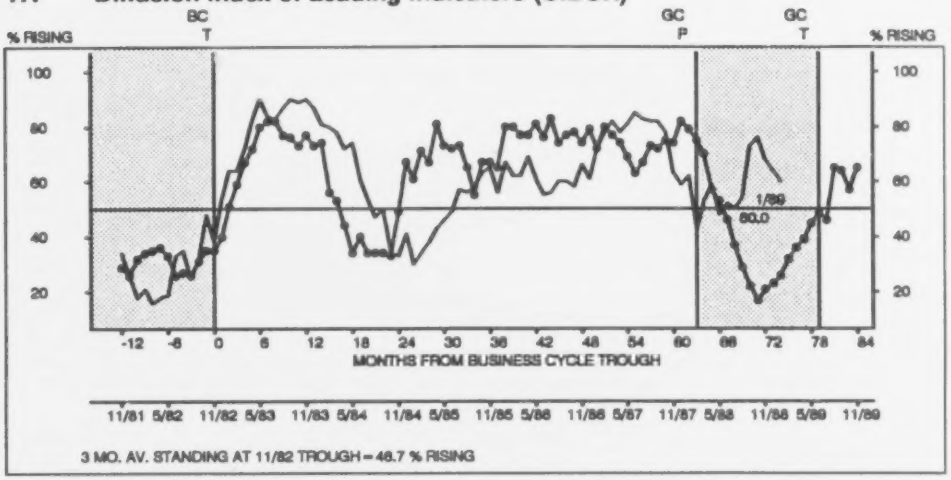
15. Services Leading Index, Growth Rate (CIBCR)



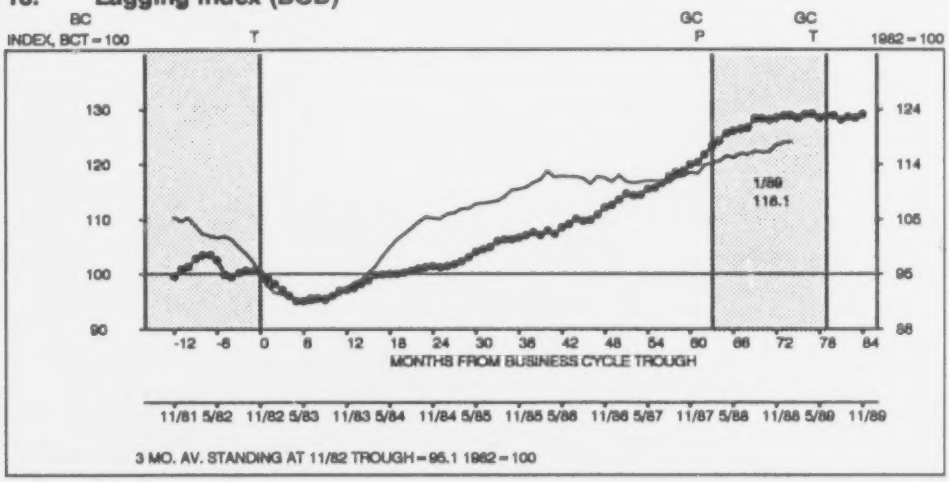
Prospects for service growth good.

16. Services Coincident Index, Growth Rate (CIBCR)

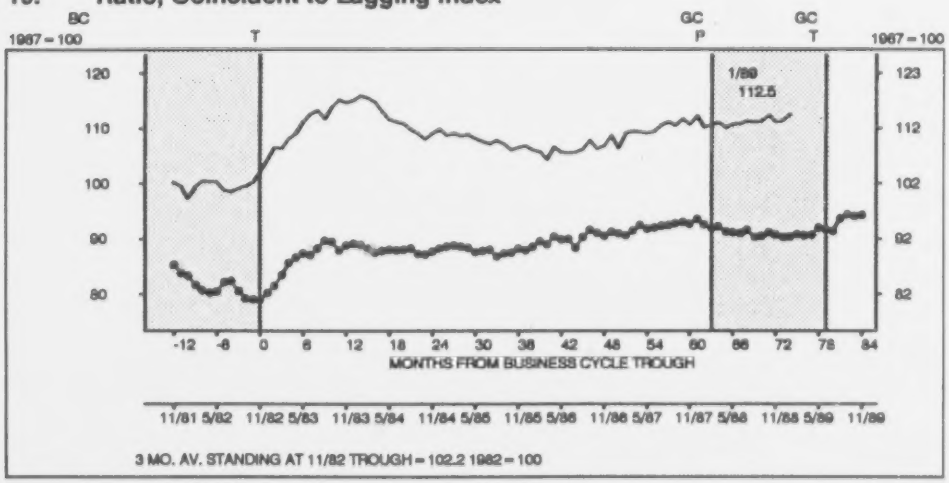
17. Diffusion Index of Leading Indicators (CIBCR)



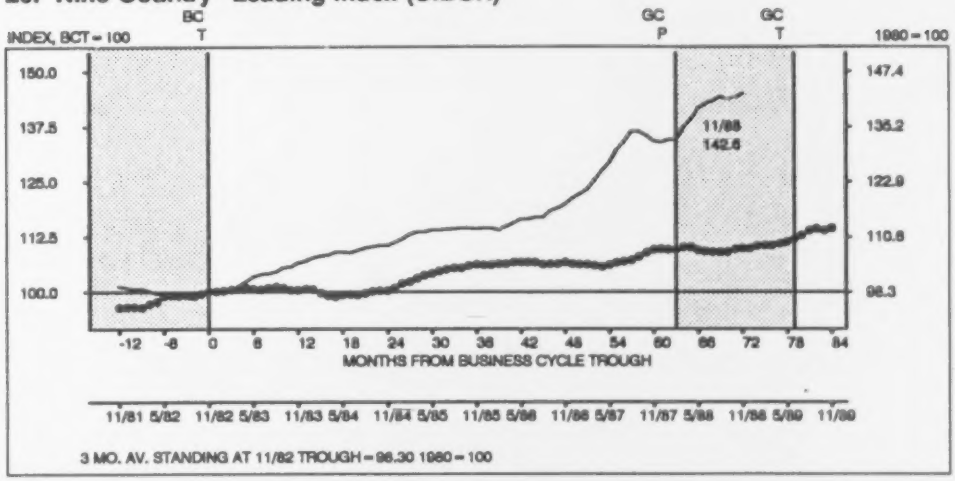
18. Lagging Index (BCD)



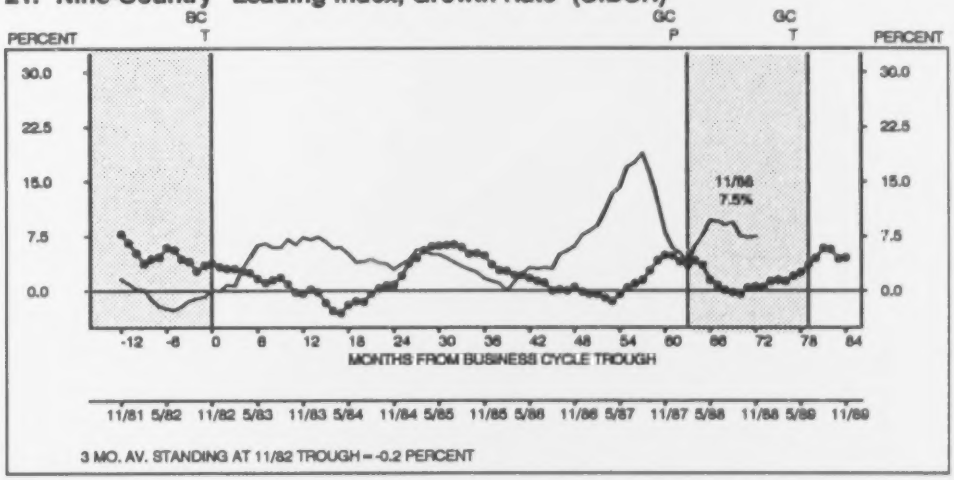
19. Ratio, Coincident to Lagging Index



20. Nine-Country* Leading Index (CIBCR)



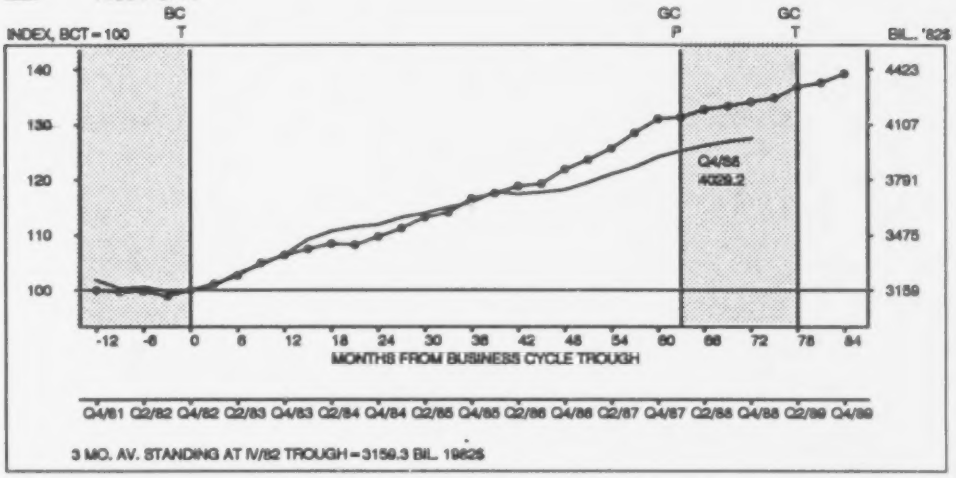
21. Nine-Country* Leading Index, Growth Rate (CIBCR)



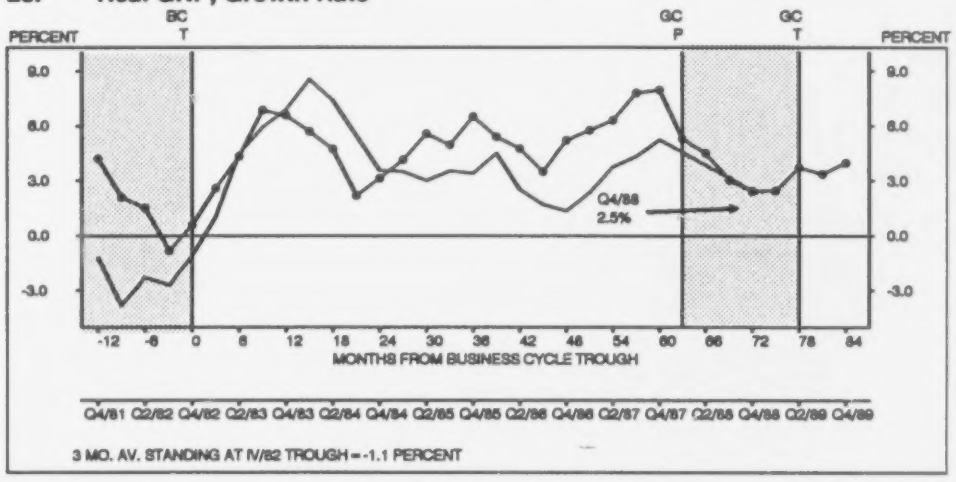
Demand for U.S. Exports: Promising

*Canada, United Kingdom, West Germany, France, Italy, Japan, Australia, Taiwan, R.O.C. and Korea, R.O.K.

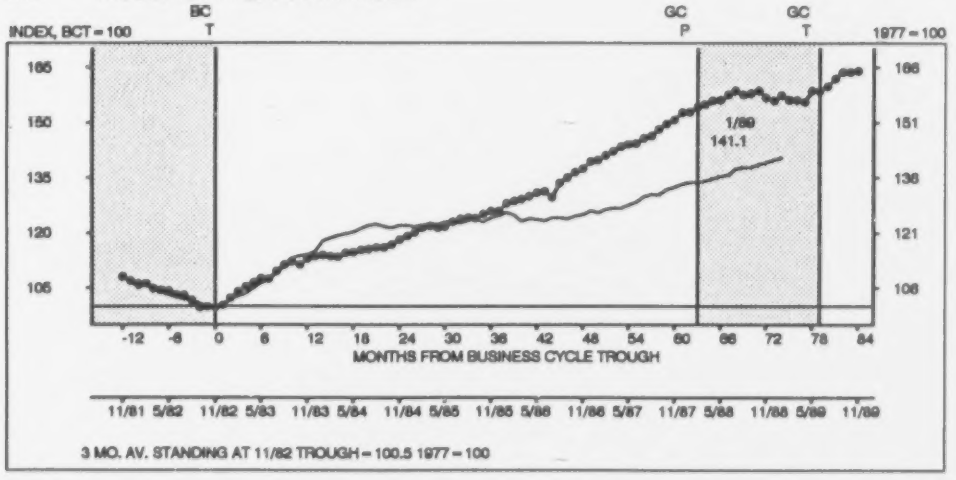
22. Real GNP



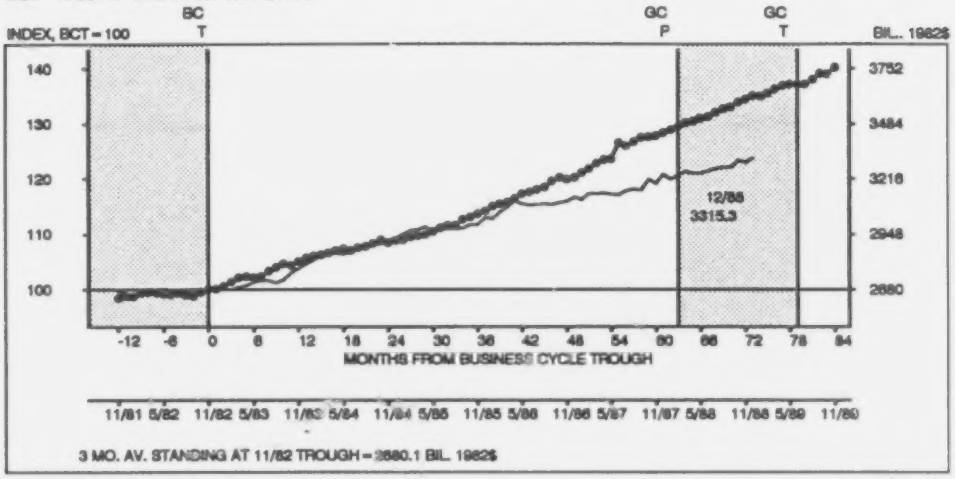
23. Real GNP, Growth Rate



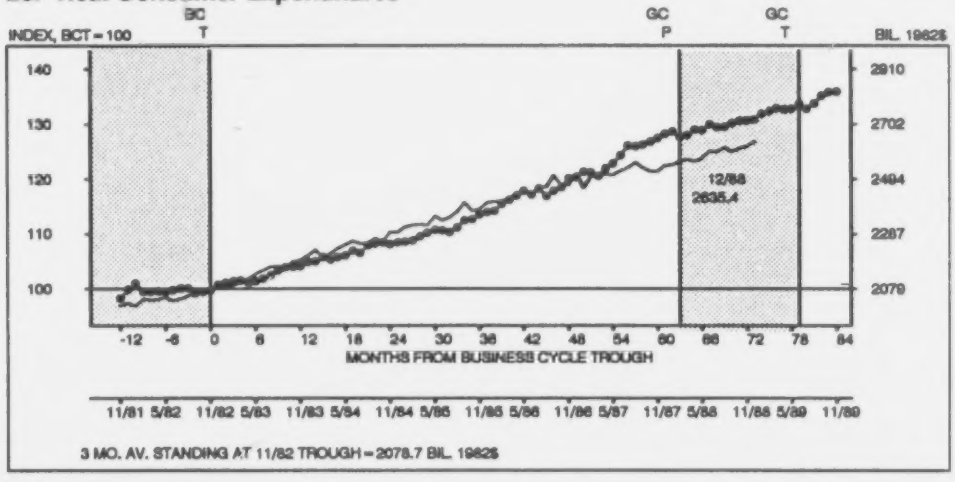
24. Industrial Production Index



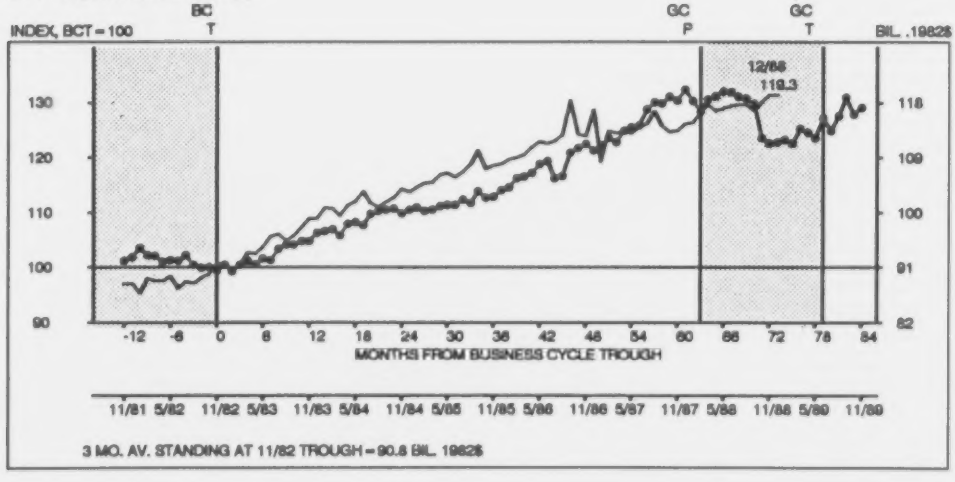
25. Real Personal Income



26. Real Consumer Expenditures

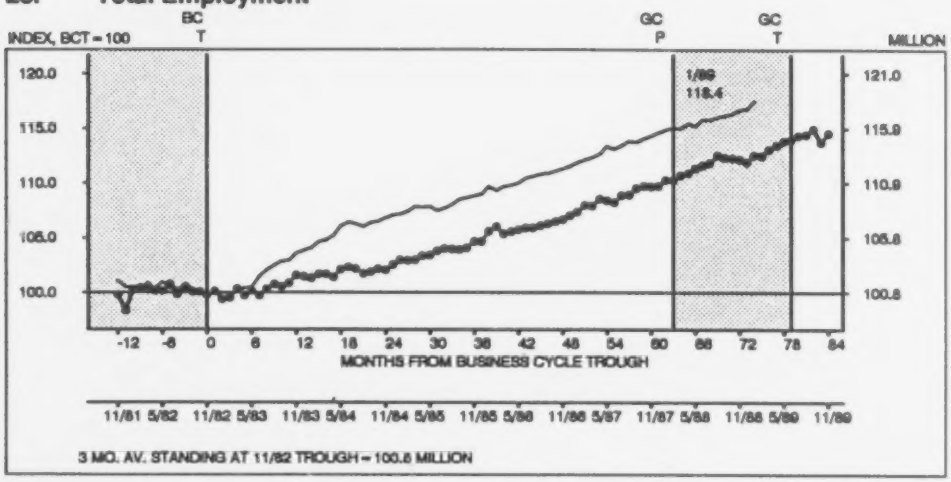


27. Real Retail Sales

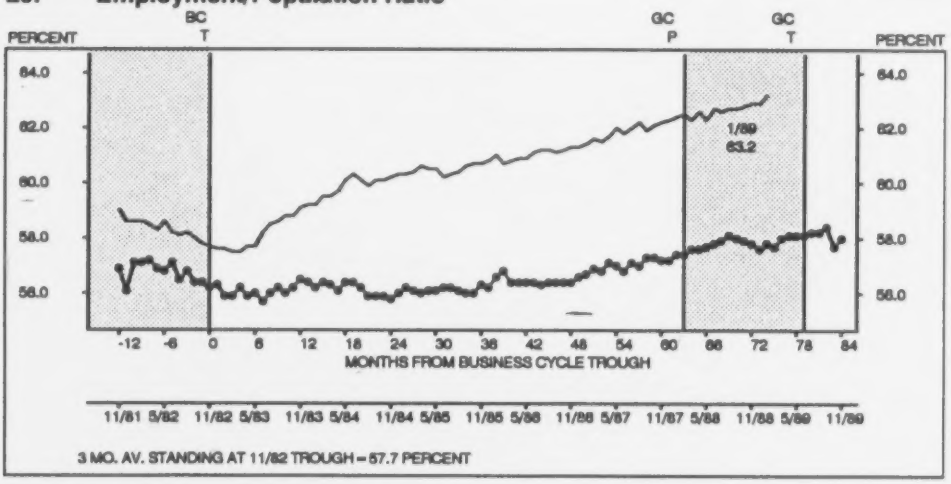


Who said retail sales were slow?

28. Total Employment

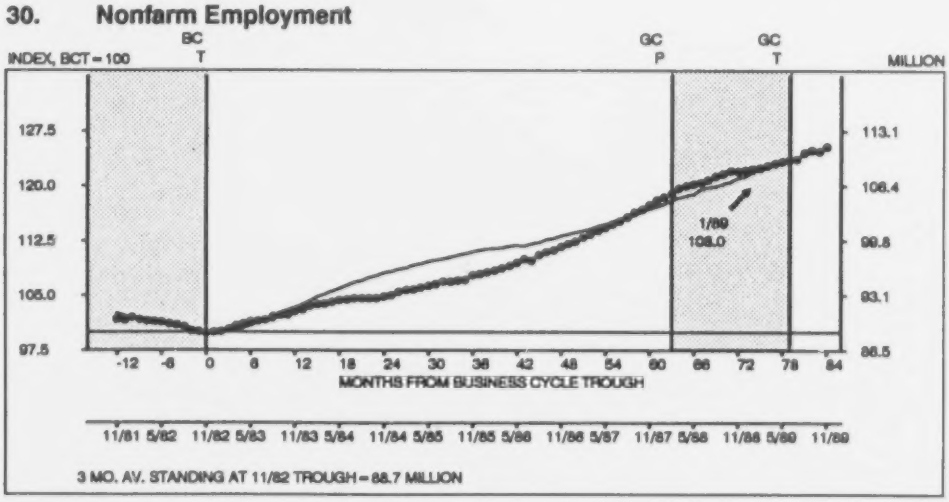


29. Employment/Population Ratio

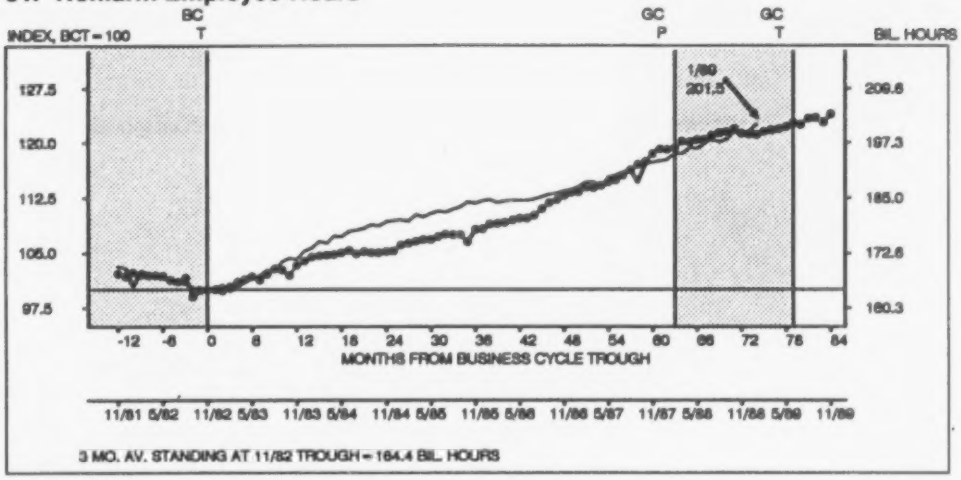


Jobs per capita: All-time record high.

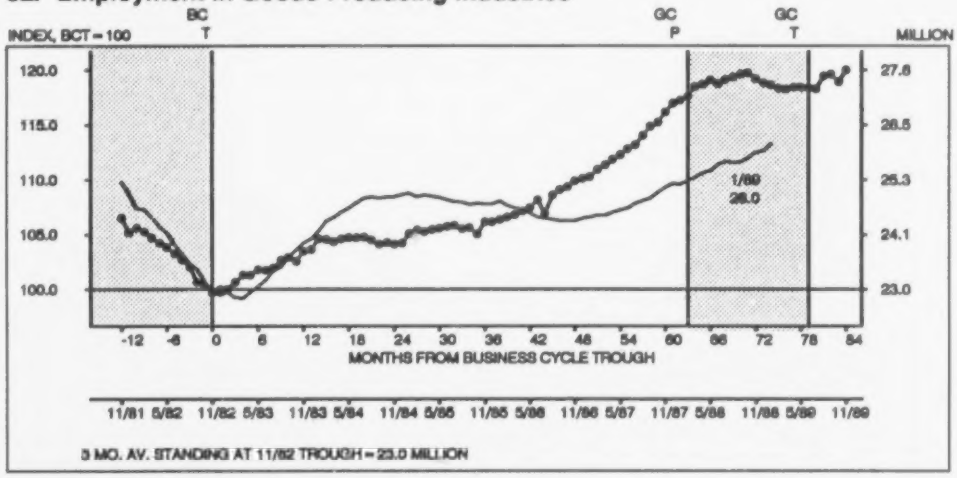
30. Nonfarm Employment



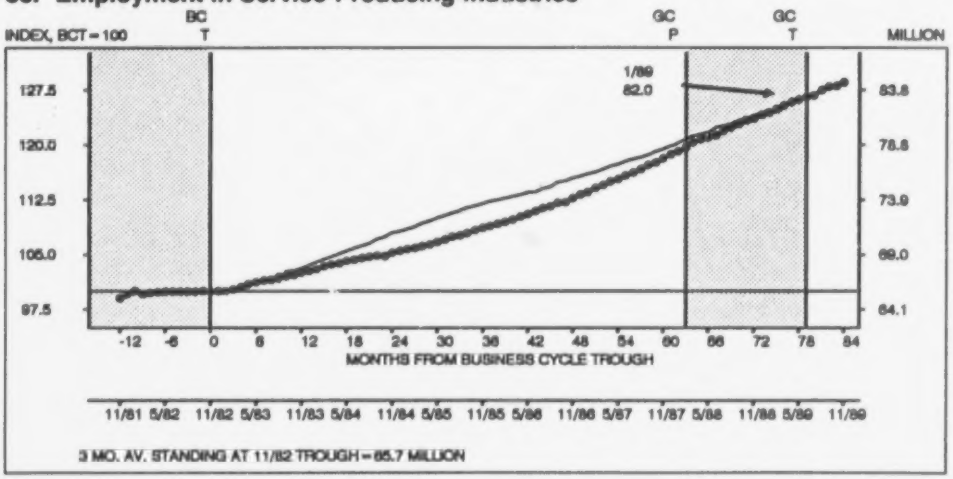
31. Nonfarm Employee-Hours



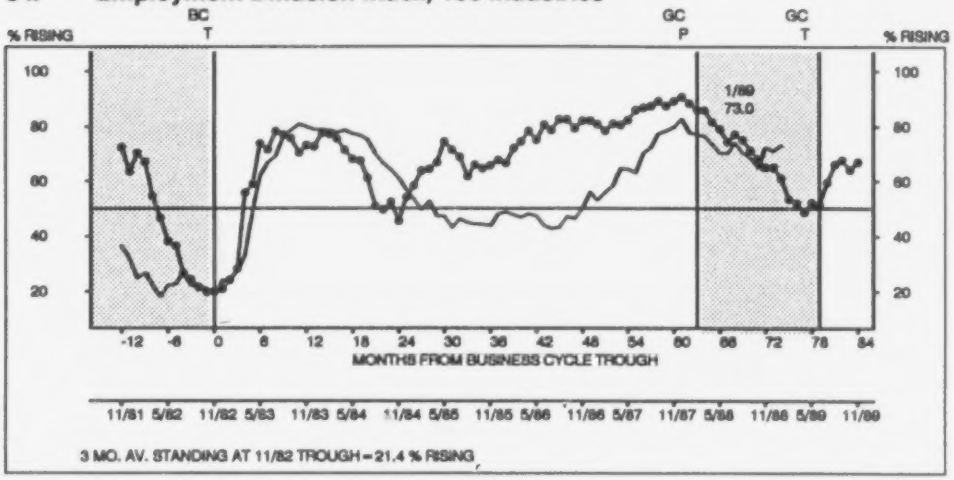
32. Employment in Goods-Producing Industries



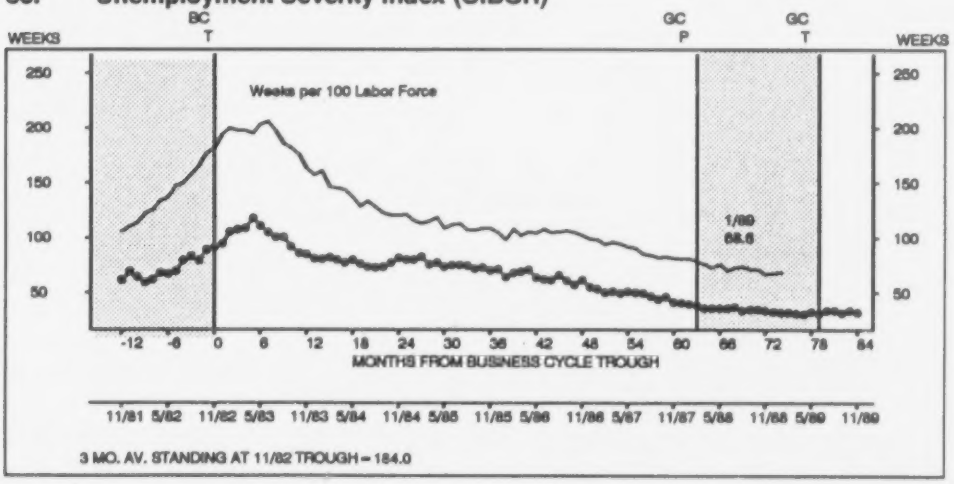
33. Employment in Service-Producing Industries



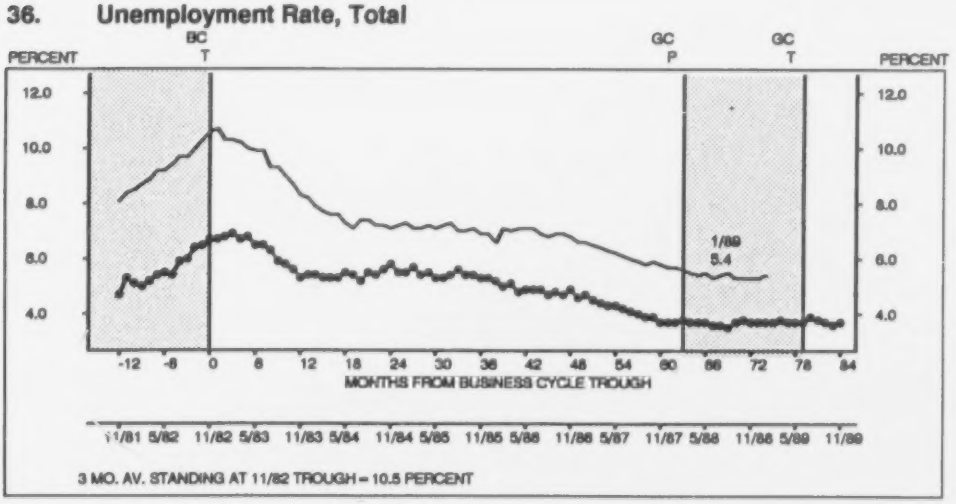
34. Employment Diffusion Index, 186 Industries



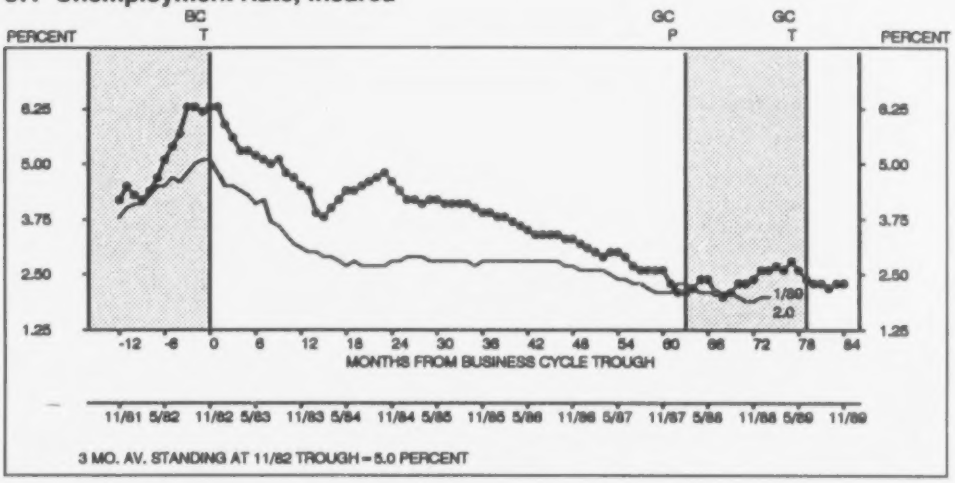
35. Unemployment Severity Index (CIBCR)



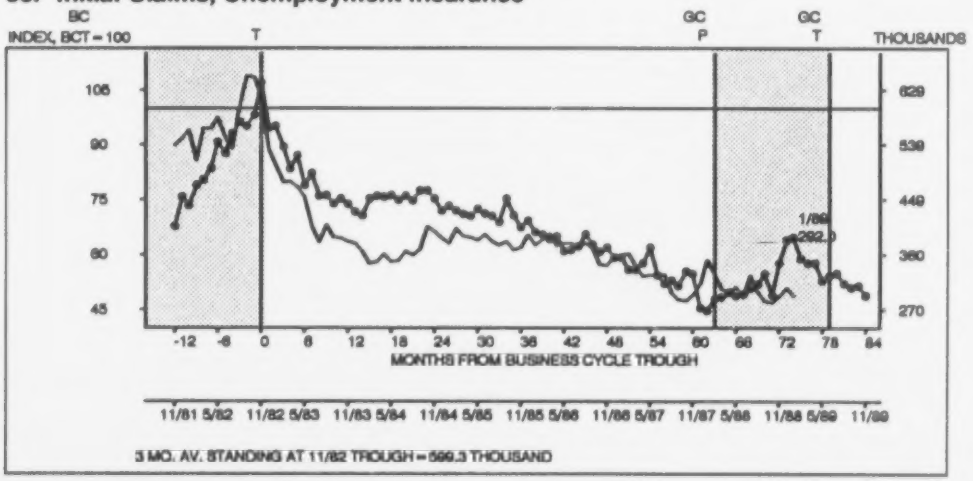
36. Unemployment Rate, Total



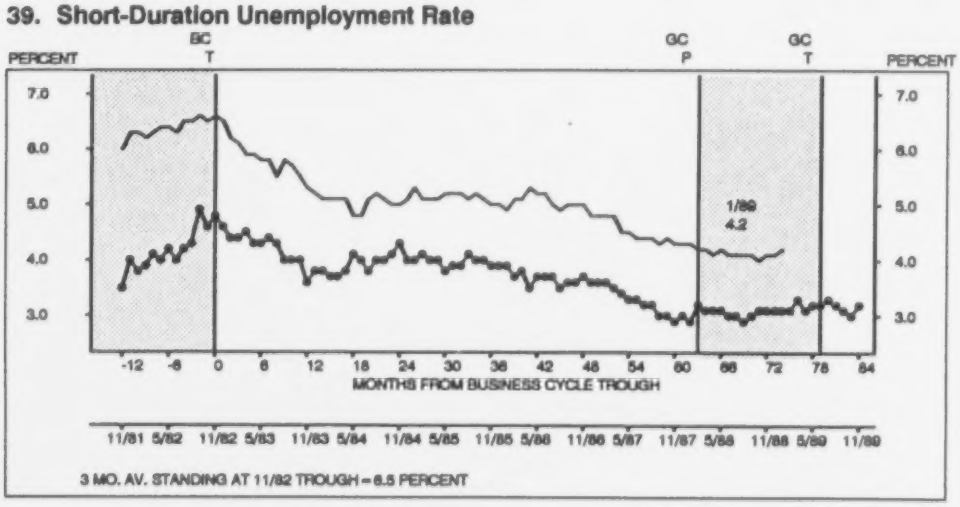
37. Unemployment Rate, Insured



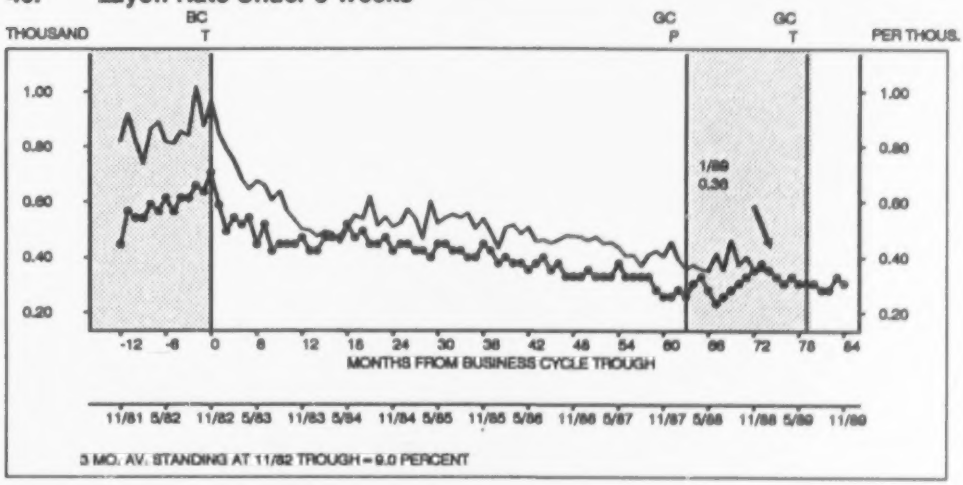
38. Initial Claims, Unemployment Insurance



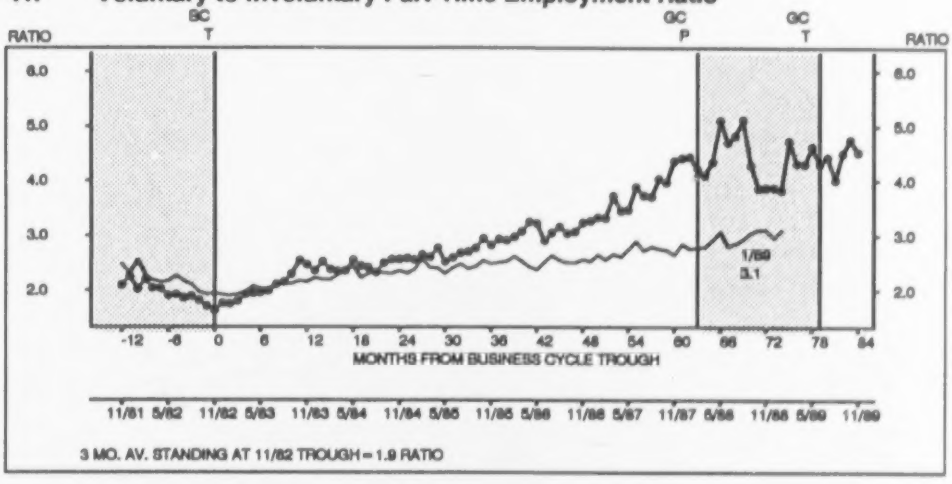
39. Short-Duration Unemployment Rate



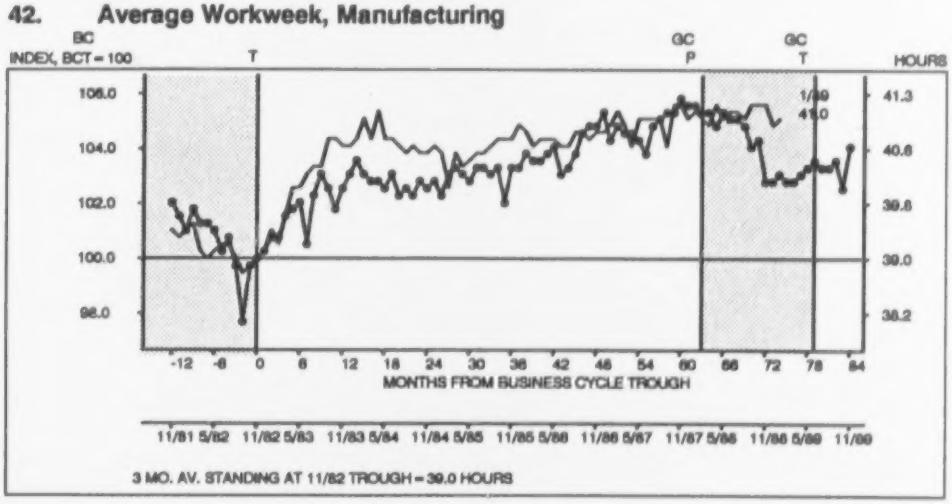
40. Layoff Rate Under 5 Weeks



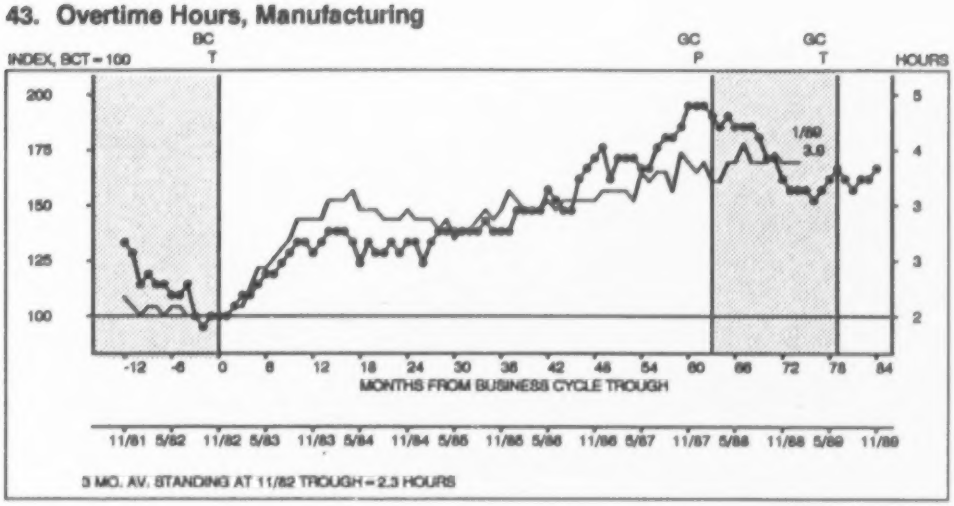
41. Voluntary to Involuntary Part-Time Employment Ratio



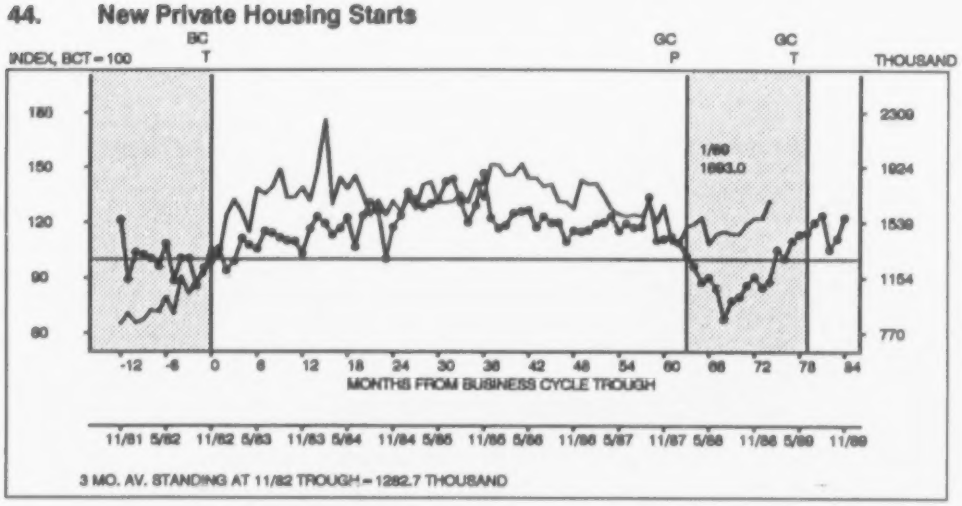
42. Average Workweek, Manufacturing



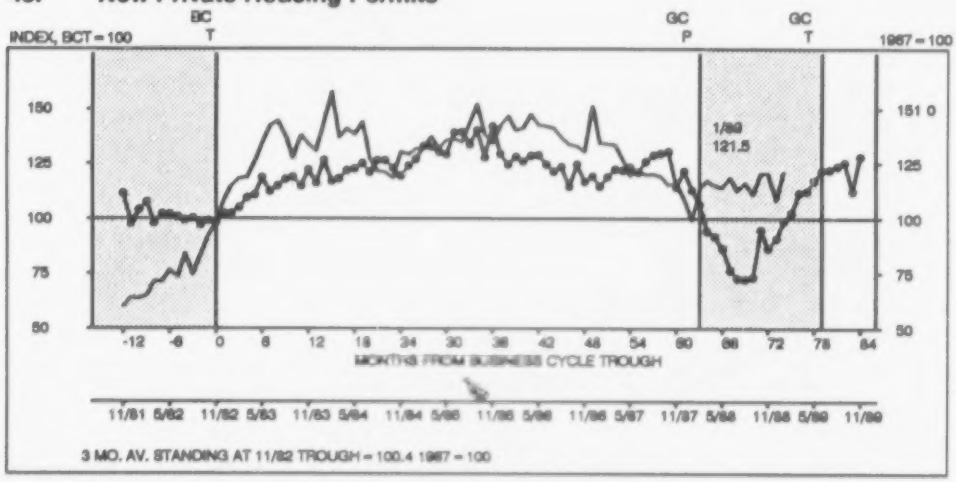
43. Overtime Hours, Manufacturing



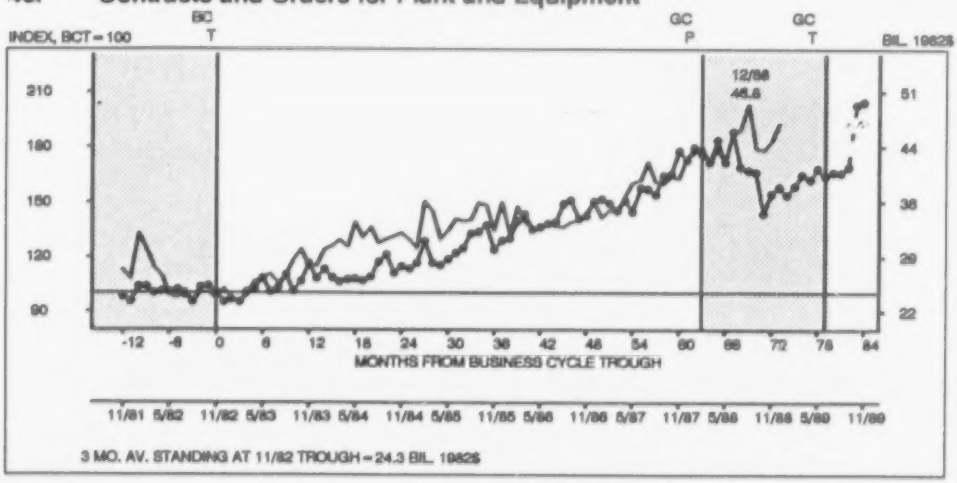
44. New Private Housing Starts



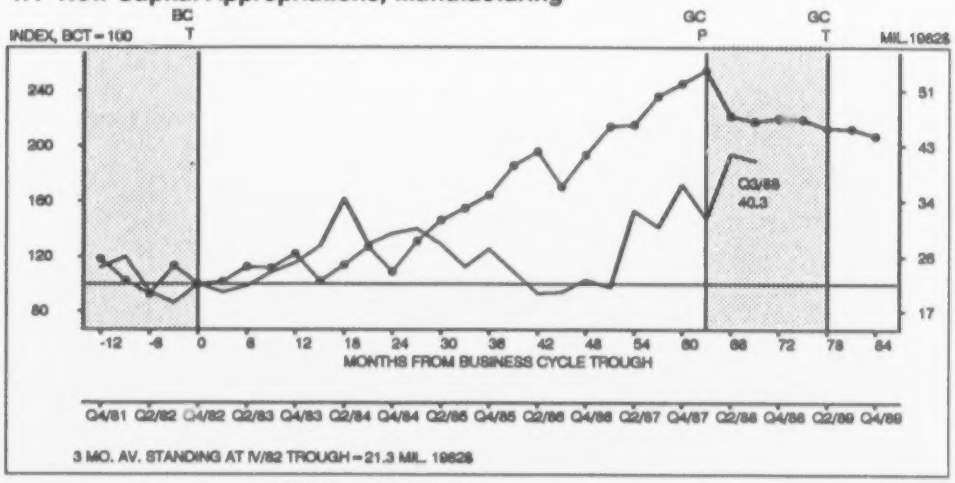
45. New Private Housing Permits



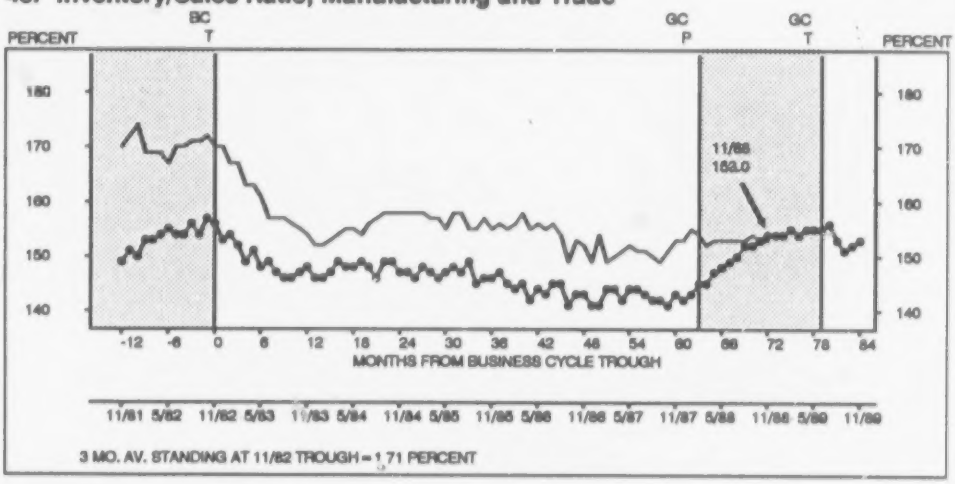
46. Contracts and Orders for Plant and Equipment



47. New Capital Appropriations, Manufacturing

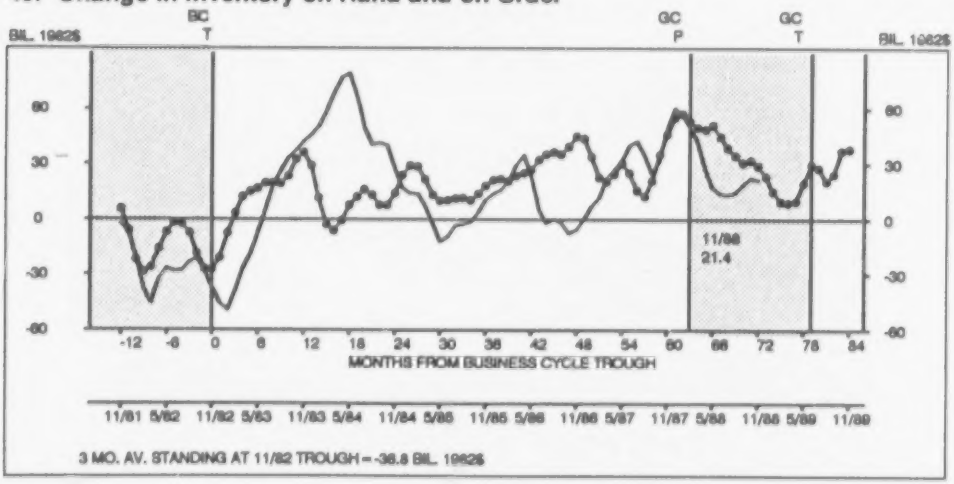


48. Inventory/Sales Ratio, Manufacturing and Trade

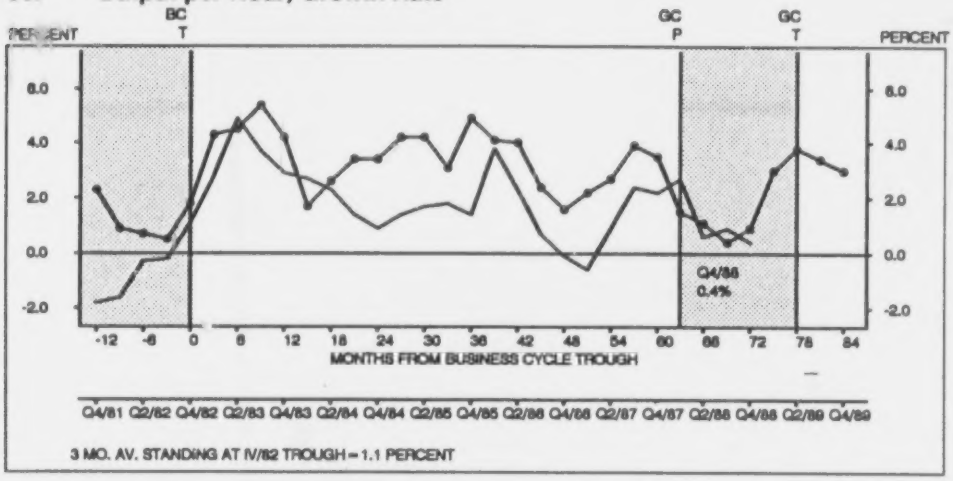


Inventories — not too burdensome.

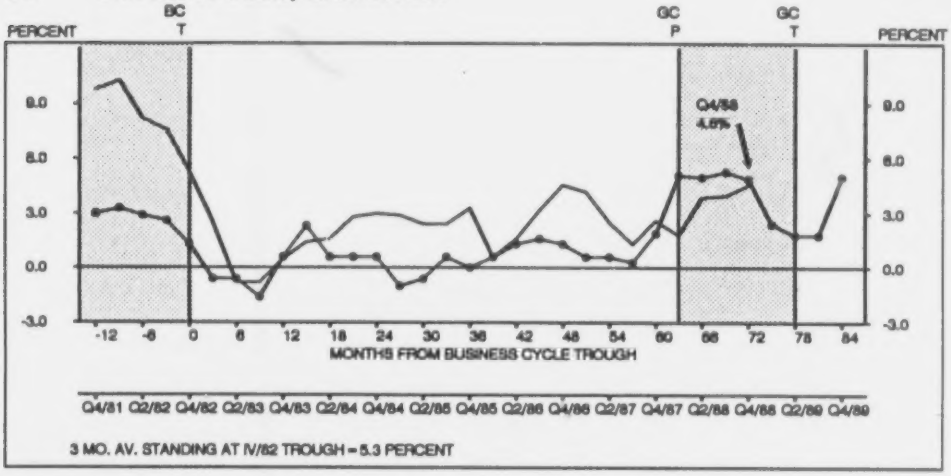
49. Change in Inventory on Hand and on Order



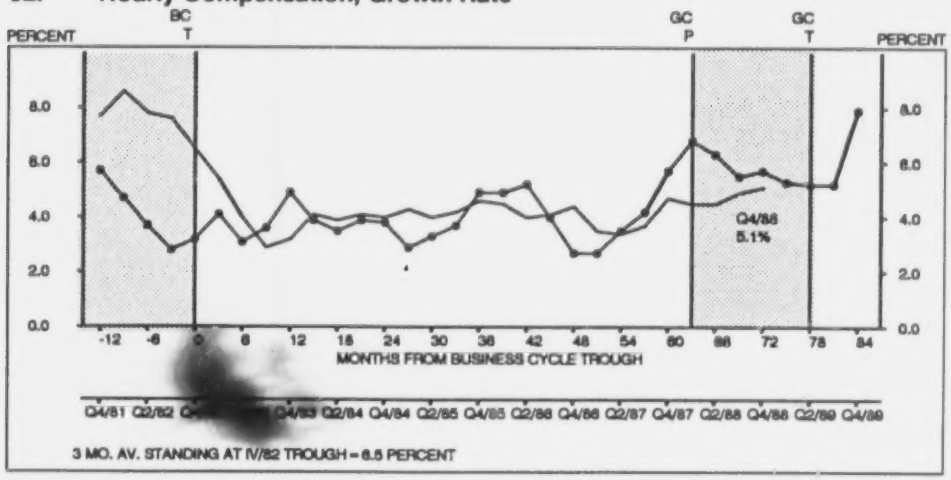
50. Output per Hour, Growth Rate



51. Unit Labot Costs, Growth Rate



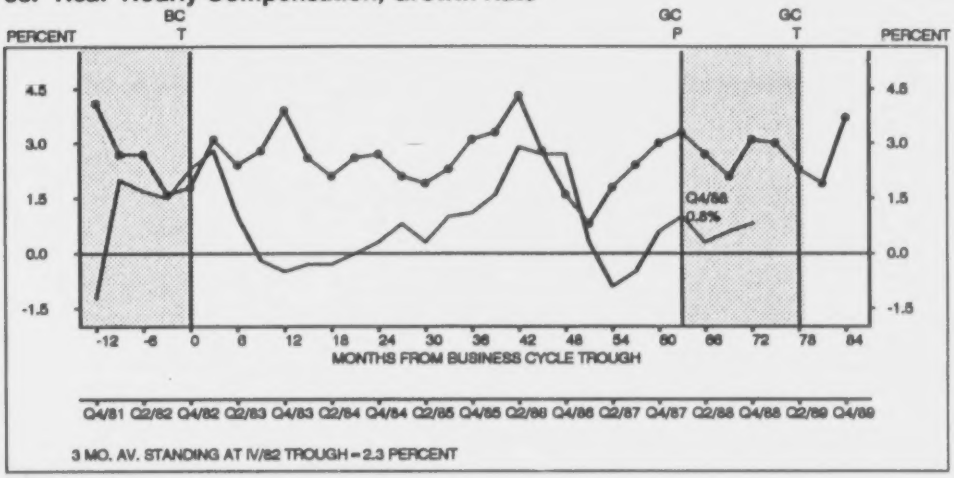
52. Hourly Compensation, Growth Rate



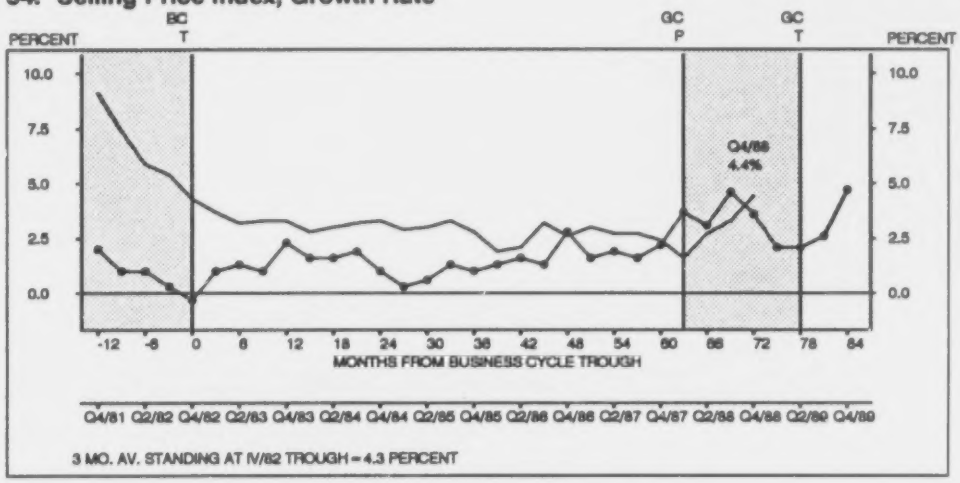
The slowdown in productivity is raising costs—

and wages are climbing faster.

53. Real Hourly Compensation, Growth Rate



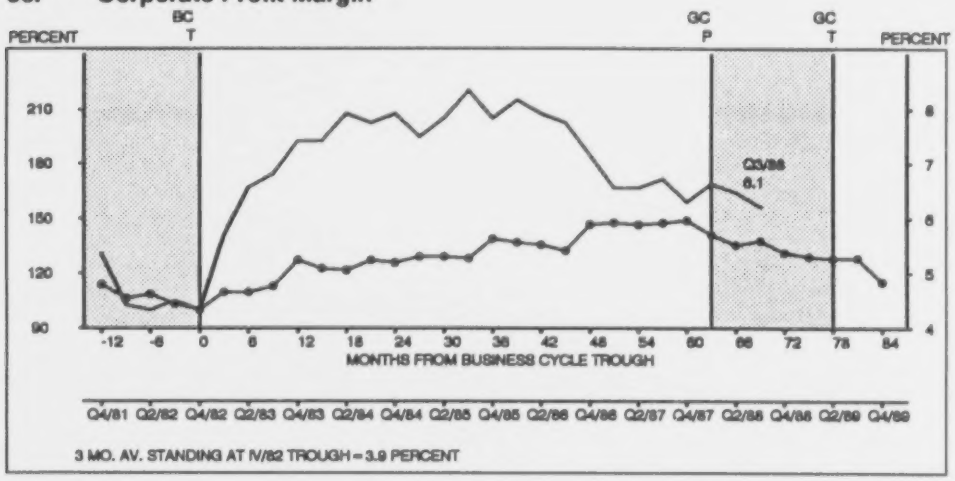
54. Selling Price Index, Growth Rate



Inflation: a new high for this expansion.

55. Growth Rate in Prices Minus Growth Rate in Costs

56. Corporate Profit Margin


BC T
GC P
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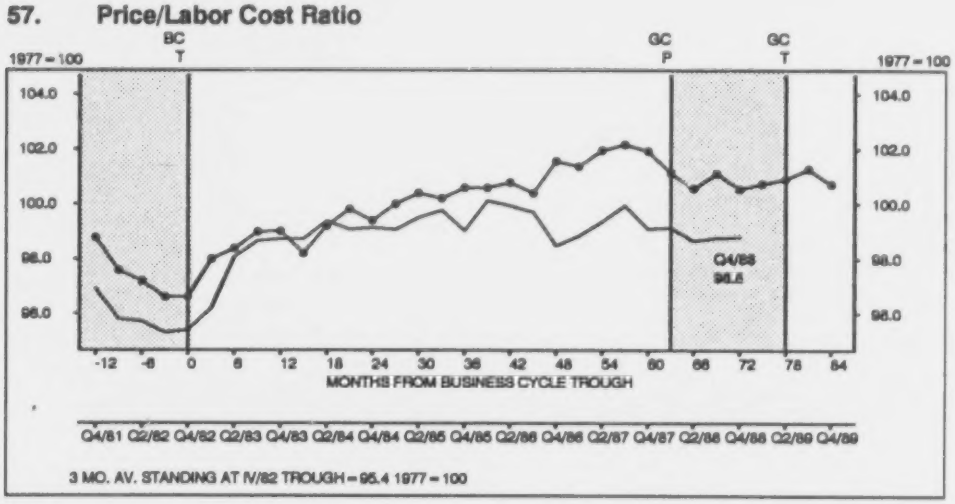
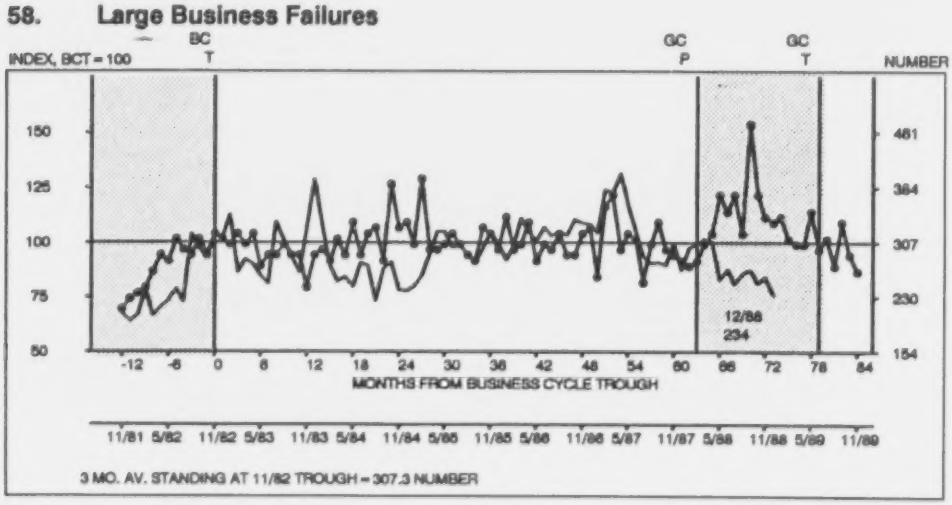
PERCENT
Q3/88
6.1
MONTHS FROM BUSINESS CYCLE TROUGH
Q4/81 Q2/82 Q4/82 Q2/83 Q4/83 Q2/84 Q4/84 Q2/85 Q4/85 Q2/86 Q4/86 Q2/87 Q4/87 Q2/88 Q4/88 Q2/89 Q4/89
3 MO. AV. STANDING AT IV/82 TROUGH = 3.9 PERCENT

57. Price/Labor Cost Ratio

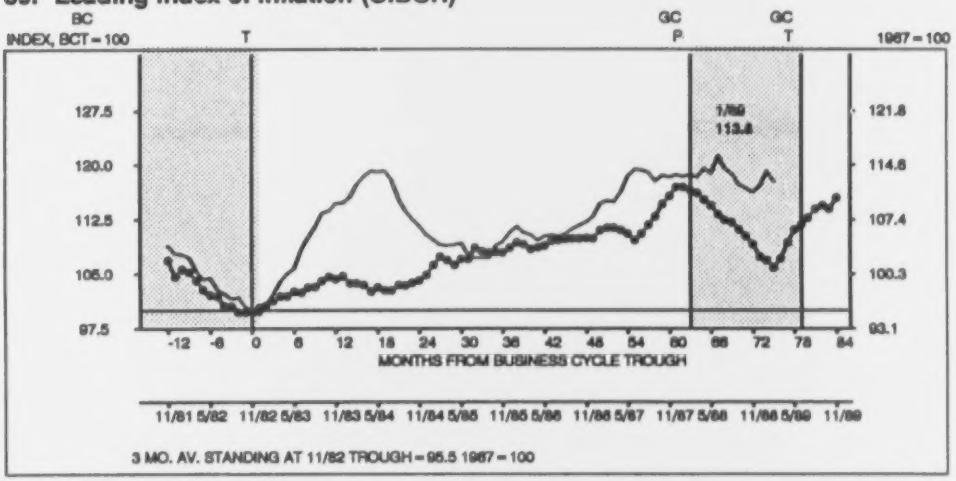


Prices keeping pace with labor costs.

58. Large Business Failures

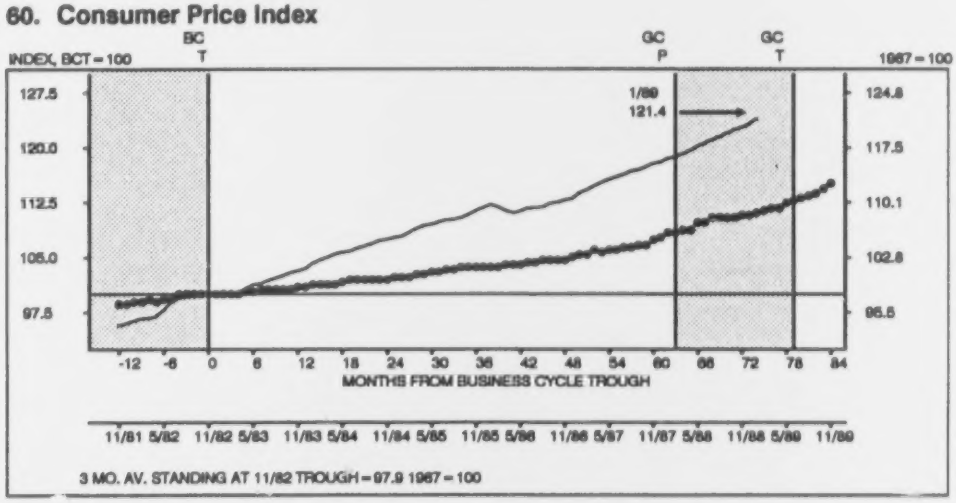


59. Leading Index of Inflation (CIBCR)

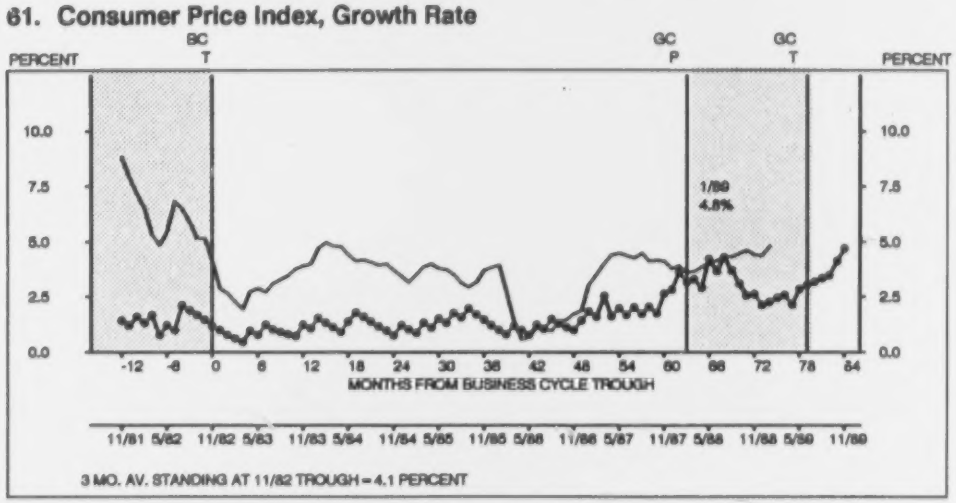


A leveling tendency, but keep watching!

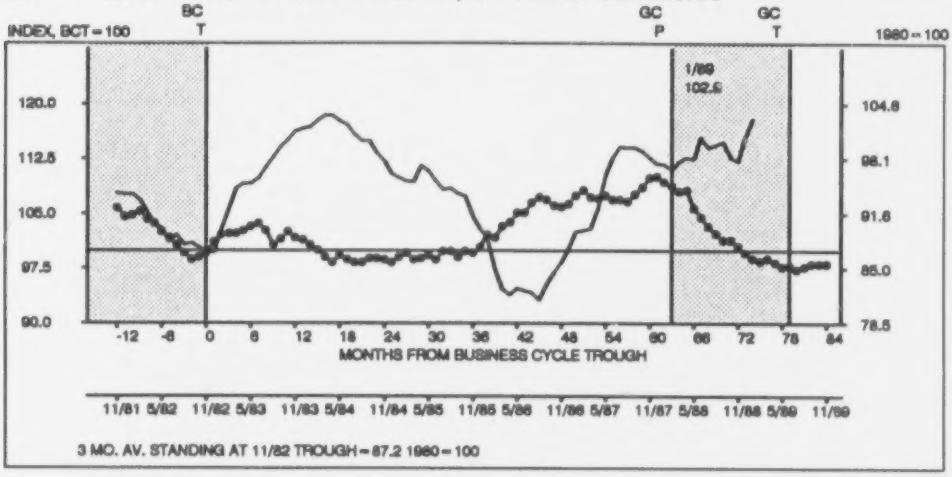
60. Consumer Price Index



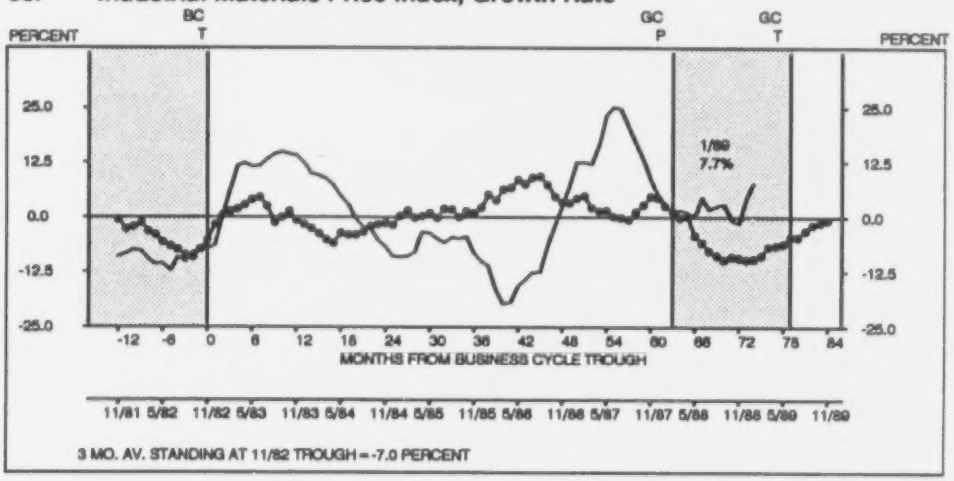
61. Consumer Price Index, Growth Rate



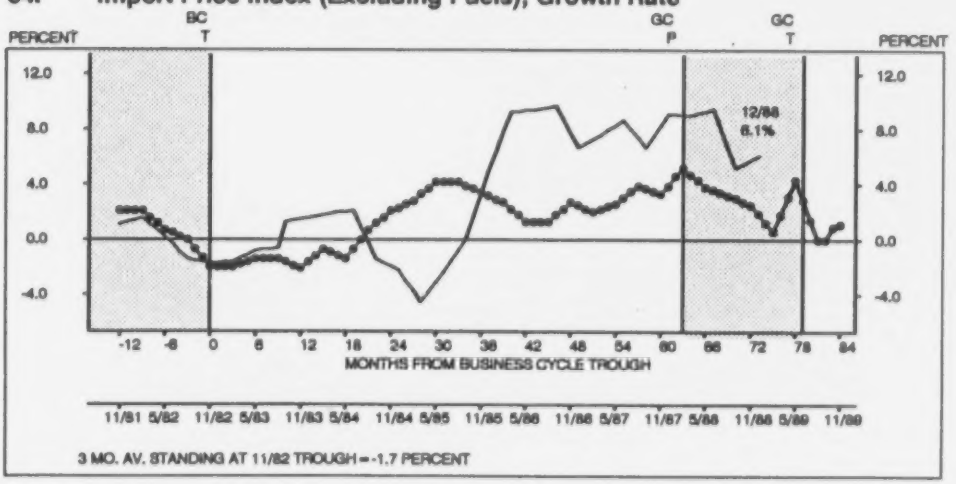
62. Industrial Materials Price Index, Journal of Commerce



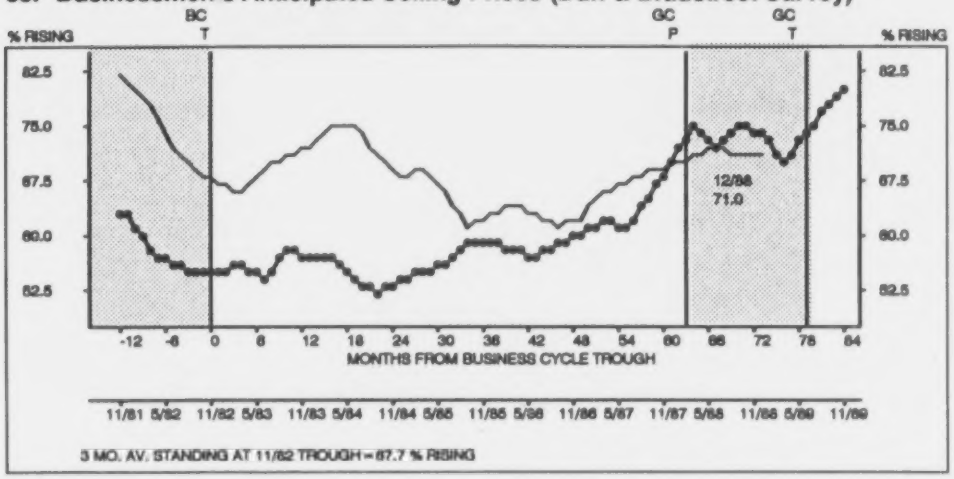
63. Industrial Materials Price Index, Growth Rate



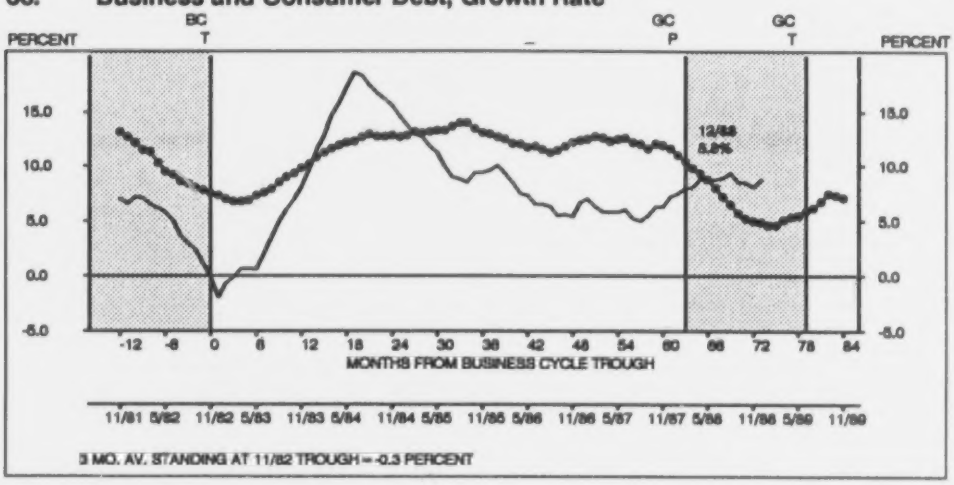
64. Import Price Index (Excluding Fuels), Growth Rate



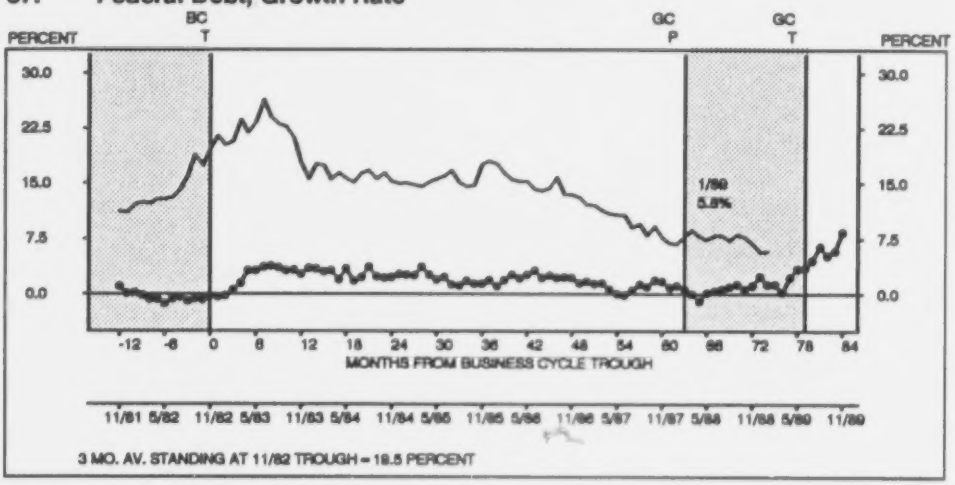
65. Businessmen's Anticipated Selling Prices (Dun & Bradstreet Survey)



66. Business and Consumer Debt, Growth Rate

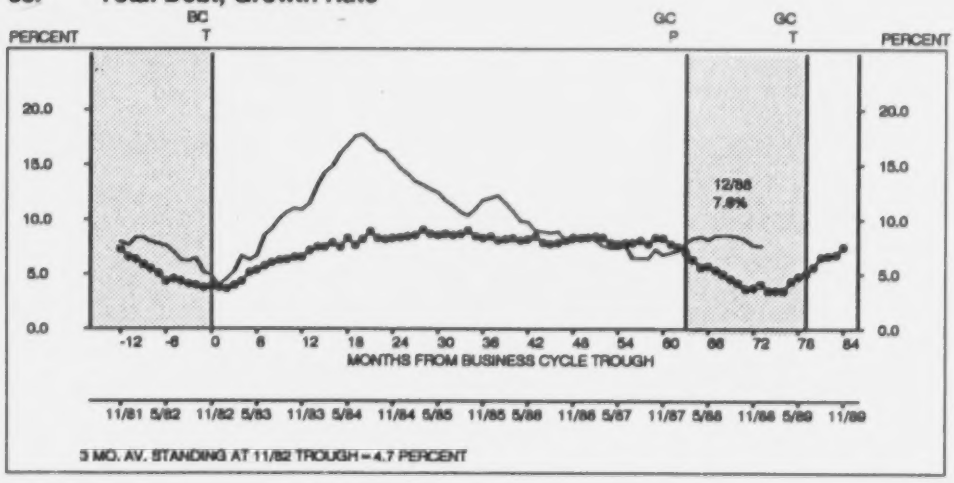


67. Federal Debt, Growth Rate

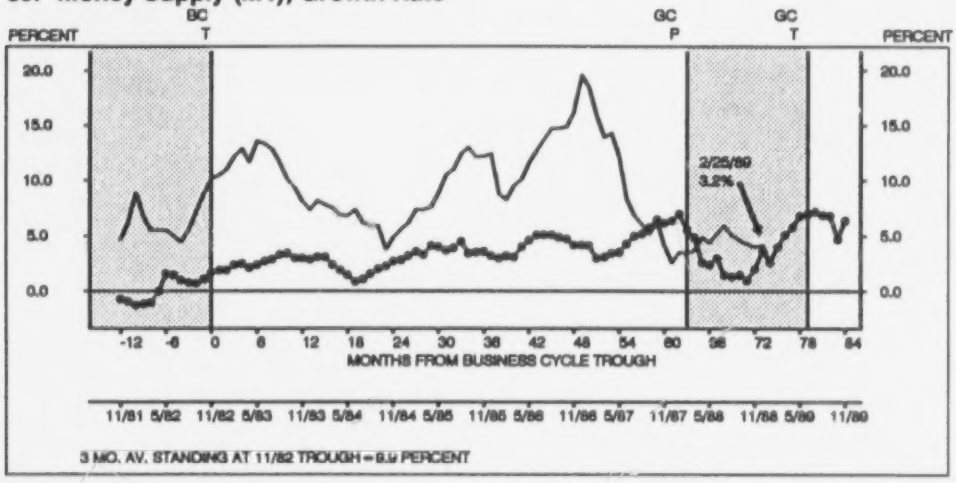


A new low for this expansion

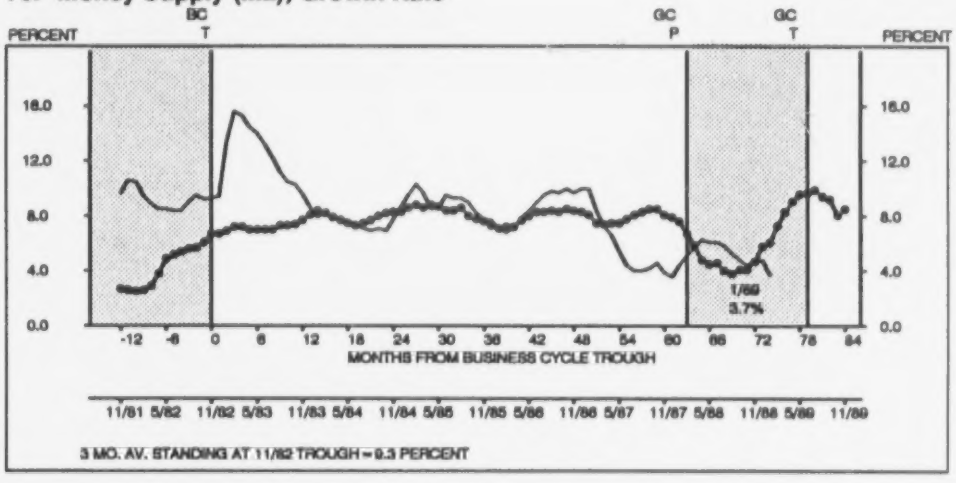
68. Total Debt, Growth Rate



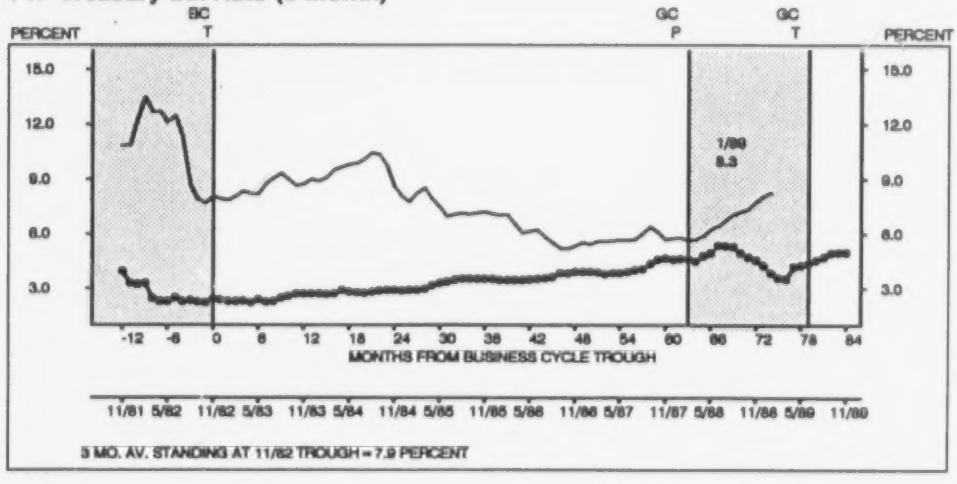
69. Money Supply (M1), Growth Rate



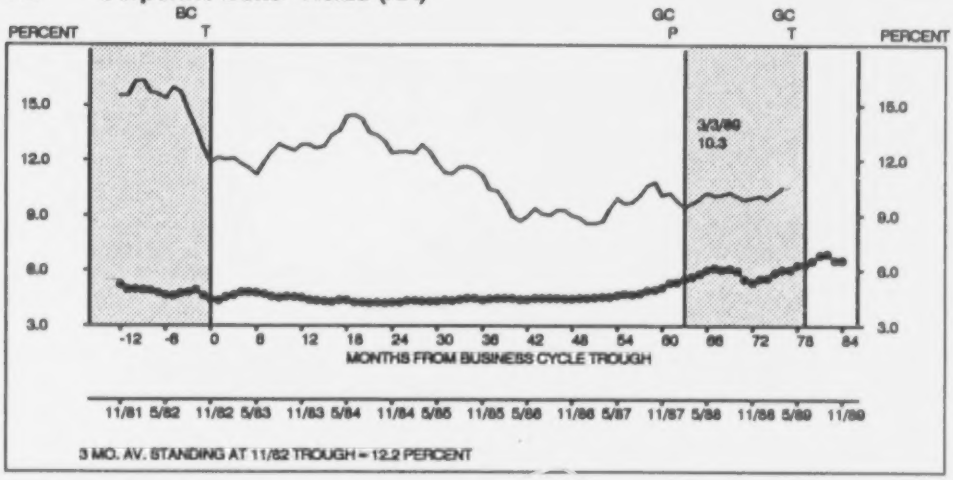
70. Money Supply (M2), Growth Rate



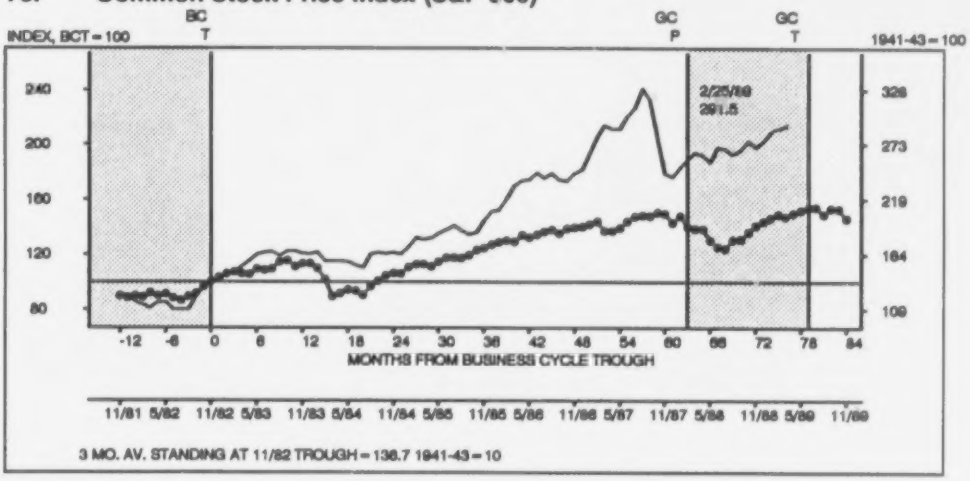
71. Treasury Bill Rate (3-Month)



72. Corporate Bond Yields (AA)



73. Common Stock Price Index (S&P 500)



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The series numbers of indicators that are reported in Business Conditions Digest are noted above. Readers may wish to consult the 1984 *Handbook of Cyclical Indicators* for further information on particular time series. The letter symbols L, C, Lg and U identify the timing classification of the series with respect to business cycles, as shown in Business Conditions Digest. L = leading, C = coincident, Lg = lagging, and U = unclassified because of inconsistency in timing. The three letters in parentheses refer to peaks, to troughs, and to peaks and troughs, respectively. When the series we use is similar to but not identical with the BCD series, the BCD classification has been used. In the case of growth rates, we show the classification only where a similar growth rate for the same or similar series is classified in BCD.

ABOUT THE CENTER FOR INTERNATIONAL BUSINESS CYCLE RESEARCH

The Center for International Business Cycle Research (CIBCR), established in 1979, specializes in the study of trends and fluctuations in economic growth and inflation in the United States and other countries. The analysis contained in this report is the result of the Center's ongoing research programs on U.S. business cycles. Readers are invited to submit comments and suggestions concerning this publication. In addition, readers wishing to secure data compiled by the Center on the nine other major industrial countries or copies of research reports may do so by communicating with:

Center for International Business Cycle Research
Uris Hall, Columbia University
New York, NY 10027
Telephone: (212) 280-2916

ABOUT THIS REPORT

Recession-Recovery Watch is a quarterly report designed to analyze current business cycle trends in terms of previous recession or recovery patterns in the United States.

This report was begun in August 1979, under the direction of Dr. Geoffrey H. Moore, following the methodology for measuring recessions developed at the National Bureau of Economic Research. Although no forecasts are made, the materials in this report do permit glimpses into the future: first, by analyzing the behavior of various leading indicators; second, by indicating what is likely to happen in terms of what did happen in previous recessions and recoveries.

The leading indicators used in this report are relevant to future output and employment because they represent actions taken, like the placing of orders, that will result in future output, or because they reflect factors, like profits, that influence future decisions on output. The record of what happens during the latter stages of business cycles is relevant because of the family resemblance among successive cycles, a resemblance that has its origin in the processes by which business cycles are generated. Every business cycle has its own surprises, partly because of policy actions taken, but many developments are not surprising, having occurred many times before. The historical comparisons contained in this report help one anticipate what is typical and distinguish it from the unusual.

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RECESSION - RECOVERY WATCH...

A Bimonthly Report Designed to Assist in the Evaluation of Current Business Conditions

Published by the Center for International Business Cycle Research,
Columbia Business School, Columbia University, New York, NY 10027

Dr. Geoffrey H. Moore
Director

Vol.11, No. 2
May 1989

Summary

This is the age of specialization, and the leading indicators have become as specialized as everything else. As readers of this publication know, we have leading indexes that are more promptly available than others, like the weekly index constructed at CIBCR and published in *Business Week*, or the NAPM leading index based on the surveys by the National Association of Purchasing Management. We have a leading employment index, which is both promptly available and especially good for forecasting employment and unemployment. Our leading index of U.S. export demand, based on the leading indexes for nine other countries, is useful in anticipating trends in export volume. A long-leading index for the U.S., which we hope to develop for other countries, takes a longer look ahead and hence supplements a more comprehensive short-leading index. A leading index of inflation emphasizes the factors that underlie trends in prices. Moreover, we have developed leading indexes for particular sectors of the economy, such as the services industries, retail trade, the metals industries, and the stock and bond markets.

One result of this specialization is that often there is no simple answer to the question, What are the leading indicators saying about the state of the economy? They don't

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all speak with one voice. In this summary we'll concentrate on the leading indexes shown in Charts A and B, since they give a broad picture.

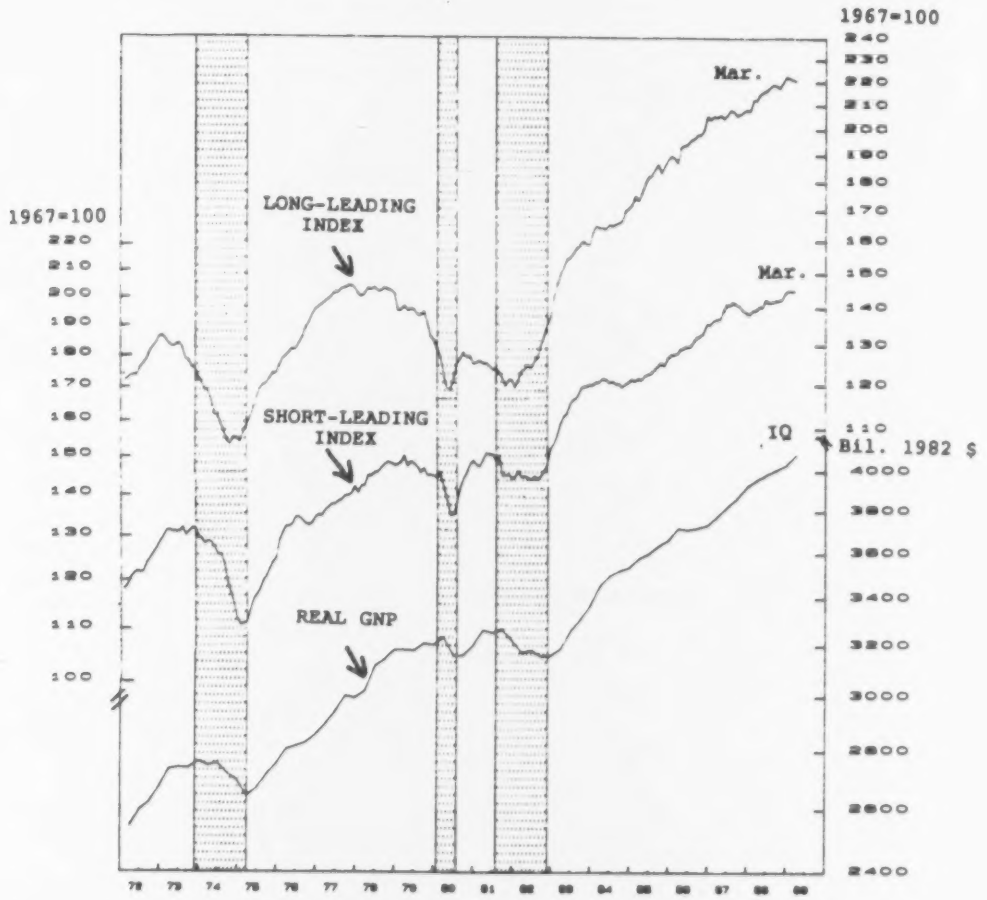
The Center's long-leading and short-leading indexes, shown in Chart A. are now being published monthly by the Department of Commerce in its *Business Conditions Digest*, starting with the April 1989 issue. The short-leader climbed to a new high in January and dropped a bit in February and March. The long-leader reached its high to date in December and eased off through March. Neither of these dips is sufficient to suggest a recession, but they are consistent with slower growth in real GNP later this year.

With respect to inflation, our leading index of inflation has been fluctuating around a roughly horizontal track for more than a year, at a moderately high level (Chart B). This indicates that consumer price inflation is likely to remain in the 4 1/2 to 5 1/2 percent range. If the economic slowdown discussed above materializes, this would help depress the inflation rate, as it usually has in the past.

Slow growth and moderate inflation is the message from these leading indicators.

CHART A.

LONG-LEADING AND SHORT-LEADING INDEXES AND REAL GNP, 1972-89



Shaded areas are business cycle recessions.

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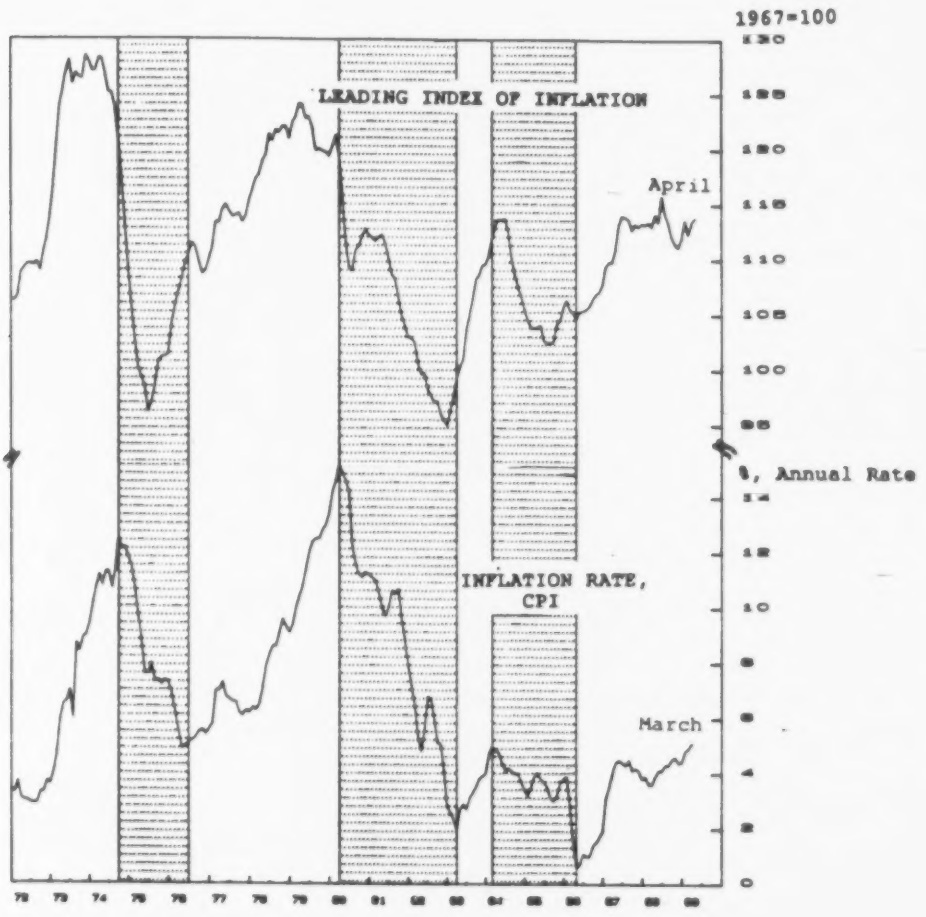
CHART B.

LEADING INDEX OF INFLATION AND CONSUMER PRICE INFLATION RATE, 1972-89



Shaded areas are periods of disinflation, based upon the six-month smoothed growth rates in the consumer price index for all consumers (shown above).

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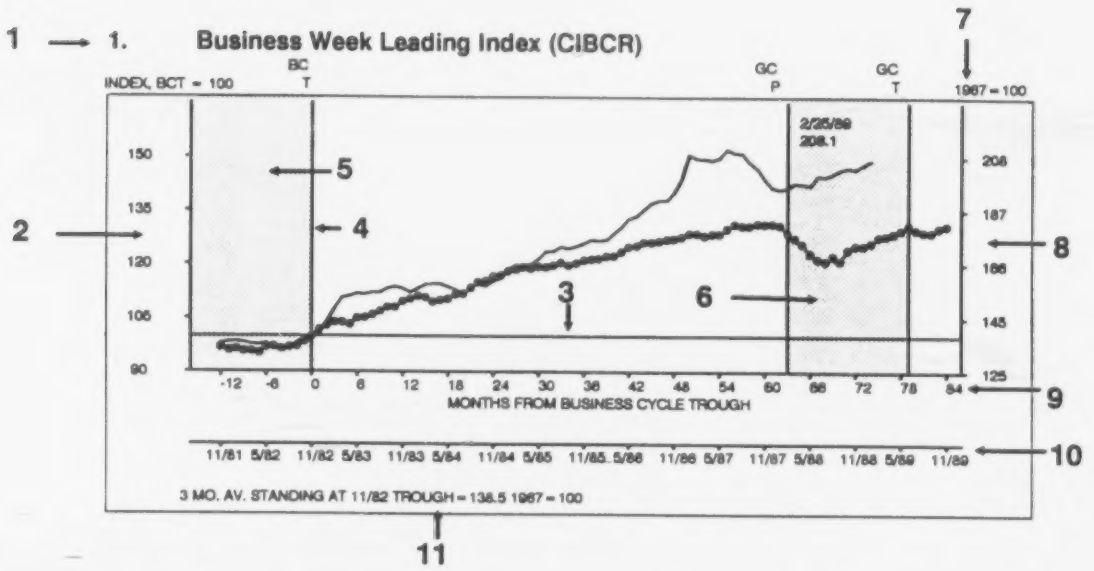
HOW TO READ ACTUAL LEVEL CHARTS



1 CHART NUMBER AND TITLE: If the title does not say "growth rate," then the chart is for the actual level rather than for the growth rate.

2 LEFT-HAND SCALE measures movements in both current and past expansion, as a percentage of business cycle trough standings. This is the common vertical scale along which the expansions are compared.

3 HORIZONTAL LINE shows levels at reference trough (100) for current and past expansions.

4 VERTICAL LINE represents reference trough dates for current and past expansion, which are all aligned so that the business cycle trough (BCT) dates are positioned on the vertical line; i.e., the past expansion is aligned with the current trough to facilitate comparison.

5 LEFT SHADED AREA represents a recessionary period.

6 RIGHT SHADED AREA, between the growth cycle peak (GCP) and growth cycle trough (GCT) represents the 1966-67 growth recession.

7 UNITS for right-hand scale refer only to the current expansion.

8 RIGHT-HAND SCALE refers only to the current expansion. It is a transformation of the left-hand scale to show the current expansion in original units rather than with trough standing at 100.

9 HORIZONTAL SCALE measures months from business cycle trough (BCT) for both the current and past expansions. This is the common time scale along which the expansions are compared.

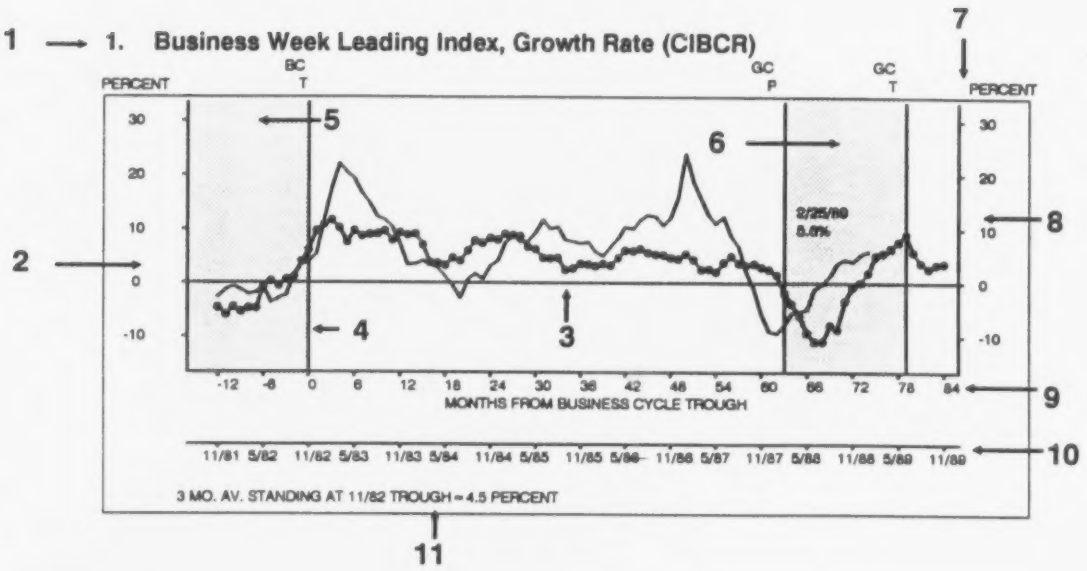
10 ACTUAL DATES refer only to the current expansion.

11 STANDING AT THE TROUGH is the level at which the current expansion began, and is calculated as the 3-month average centered on the trough month.

oooooooooooo LINE WITH CIRCLES indicates 1961–69 expansion.

———————— SOLID LINE indicates the current expansion, which began in November 1982, or Q4, 1982.

HOW TO READ GROWTH RATE CHARTS



1 CHART NUMBER AND TITLE: If the title says "growth rate," then the chart is for the 6-month smoothed growth rate, rather than the actual level. These growth rates are obtained by dividing the current month's figure by the average for the 12 preceding months, and expressing the result as a compound annual rate.

2 LEFT-HAND SCALE (same as the right-hand scale) shows growth rates in percent for both current and past expansions.

3 HORIZONTAL LINE is drawn at 0% growth rate, a natural reference level for both current and past expansions.

4 VERTICAL LINE represents reference trough dates for current and past expansions, which are aligned so that the business cycle trough (BCT) dates are positioned on the vertical line; i.e., the trough of the past expansion is aligned with the current trough to facilitate comparison.

5 LEFT SHADED AREA represents a recessionary period.

6 RIGHT SHADED AREA, between the growth cycle peak (GCP) and growth cycle trough (GCT), represents the 1966-67 growth recession.

7 UNITS for both scales in percent refer to growth rates for both current and past expansions.

8 RIGHT-HAND SCALE (same as left-hand scale) shows growth rates in percent for both current and past expansions.

9 HORIZONTAL SCALE measures months from business cycle trough (BCT) for both current and past expansions. This is the common time scale along which the expansions are compared.

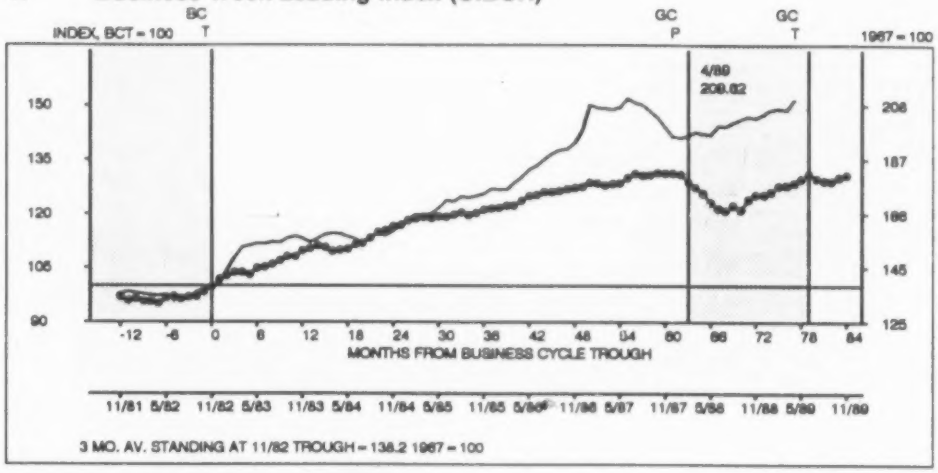
10 ACTUAL DATES refer only to the current expansion.

11 STANDING AT THE TROUGH is the growth rate at the time the current expansion began, and is calculated as the 3- month average centered on the trough month.

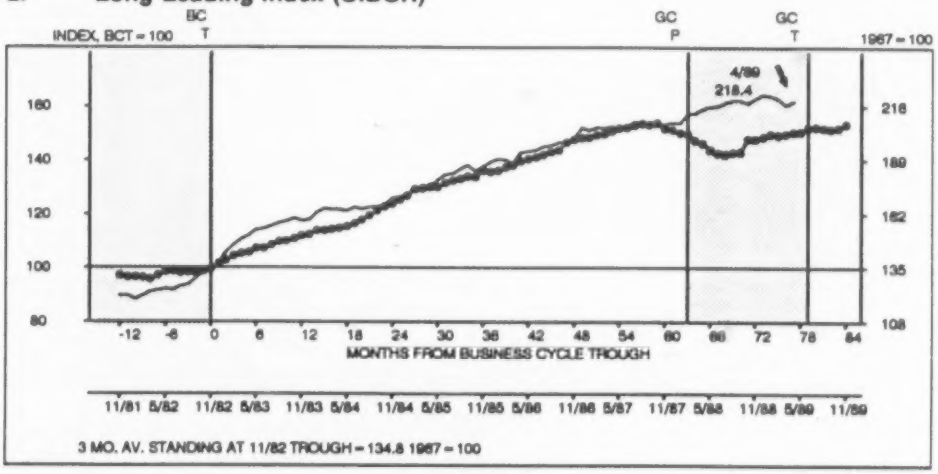
oooooooooooo LINE WITH CIRCLES indicates 1961–69 expansion.

———————— SOLID LINE indicates the current expansion, which began in November 1982, or Q4 1982.

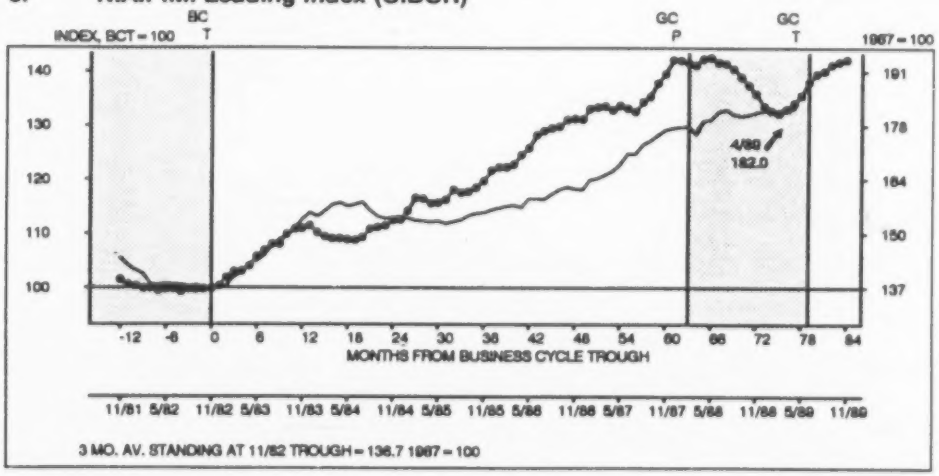
1. Business Week Leading Index (CIBCR)



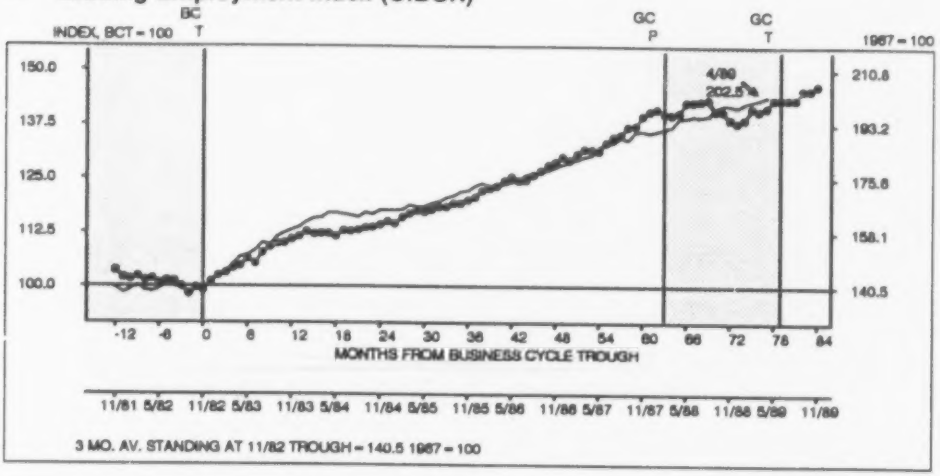
2. Long-Leading Index (CIBCR)



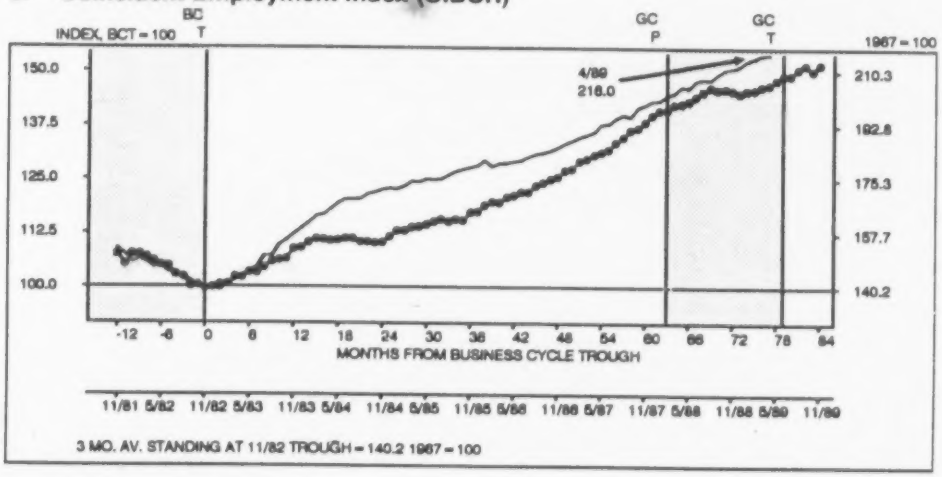
3. N.A.P.M. Leading Index (CIBCR)



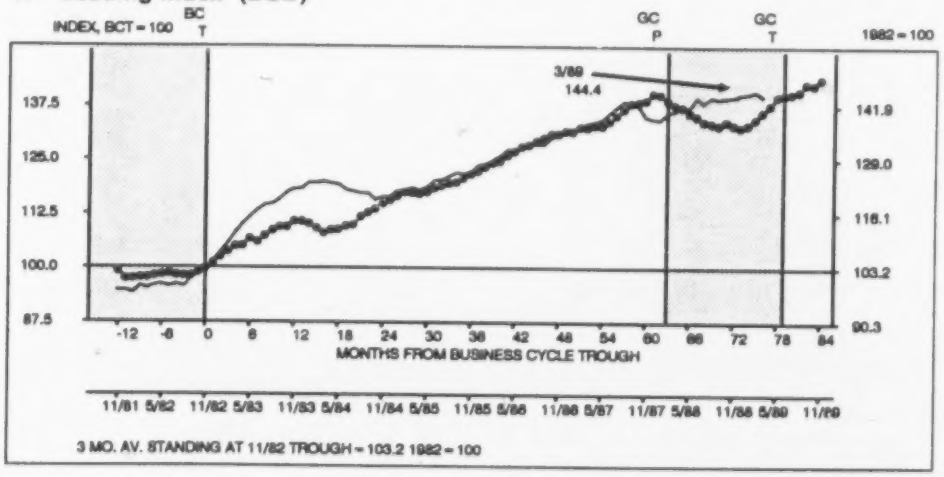
4. Leading Employment Index (CIBCR)



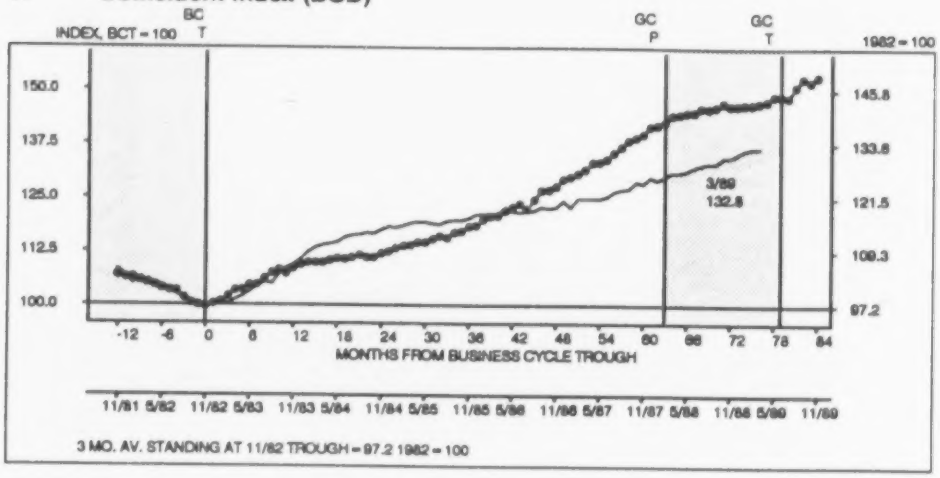
5. Coincident Employment Index (CIBCR)



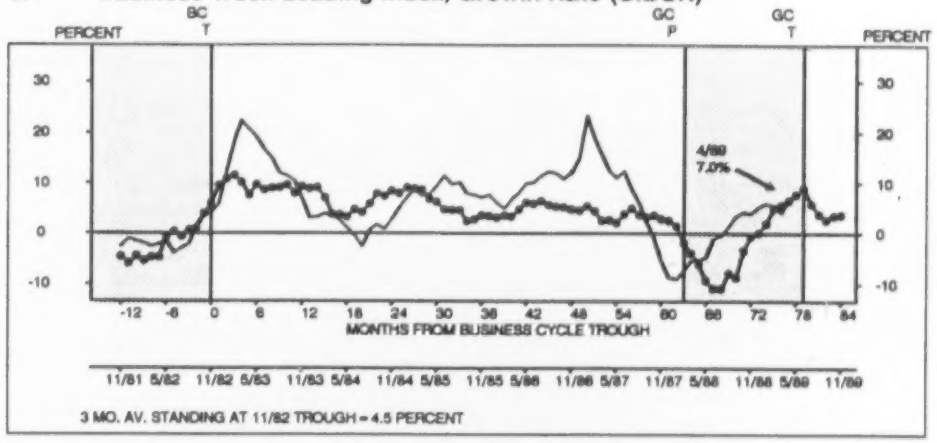
6. Leading Index (BCD)



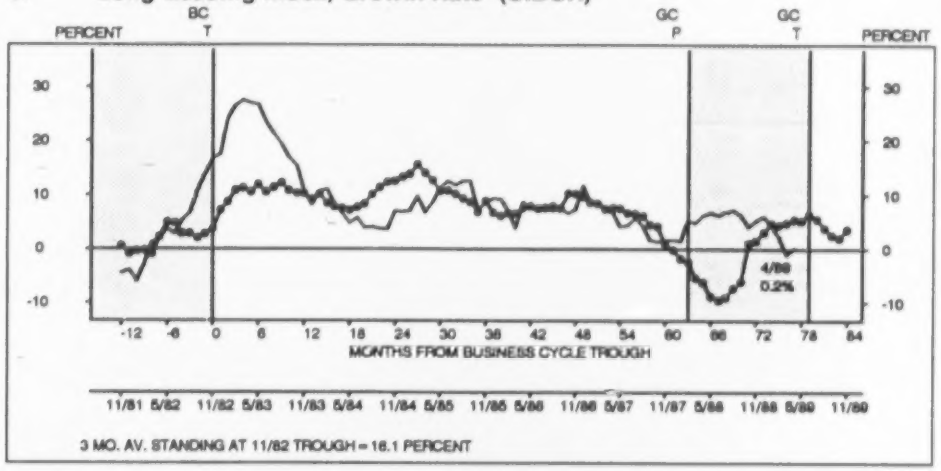
7. Coincident Index (BCD)



8. Business Week Leading Index, Growth Rate (CIBCR)



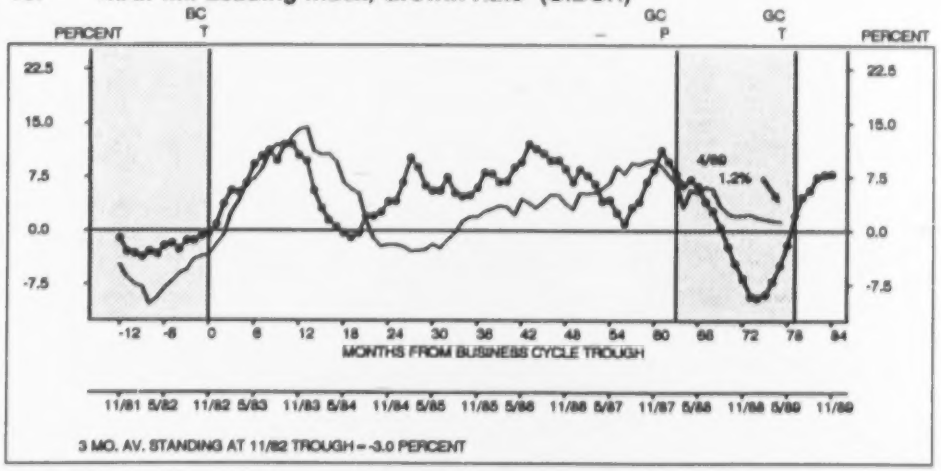
9. Long-Leading Index, Growth Rate (CIBCR)



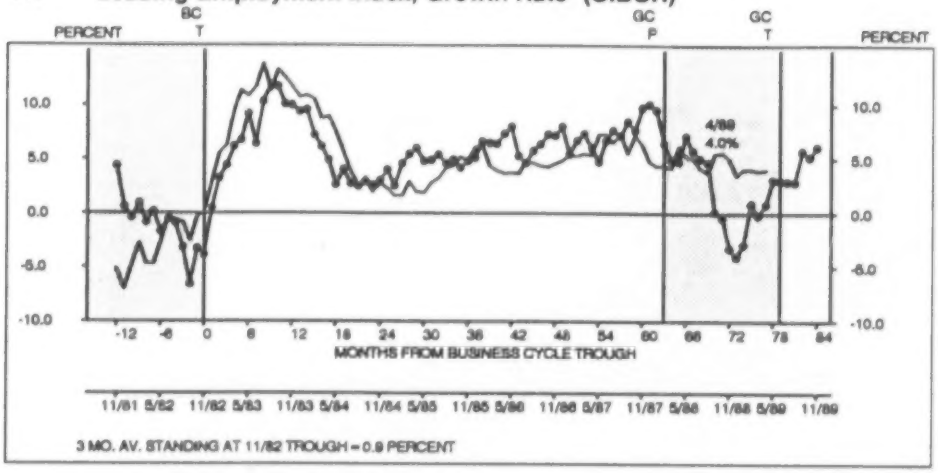
The Business Week Index is picking up ...

... but the far-seeing long-leading index is signalling a slowdown ahead.

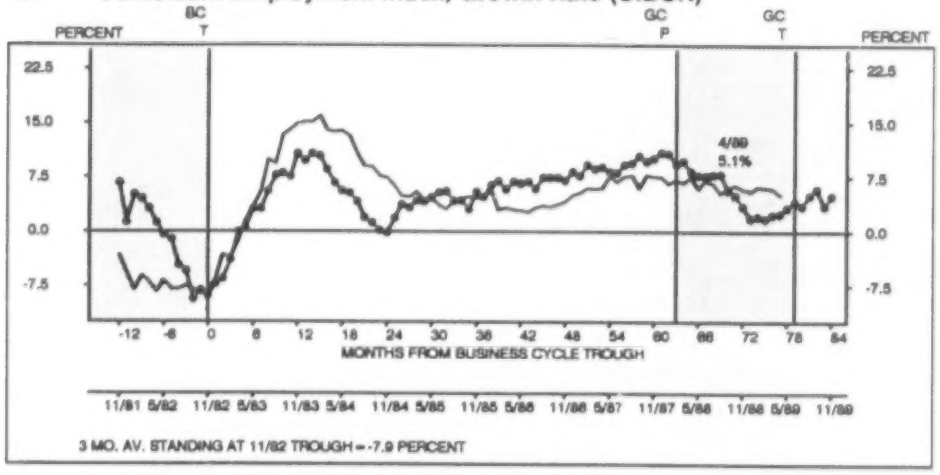
10. N.A.P.M. Leading Index, Growth Rate (CIBCR)



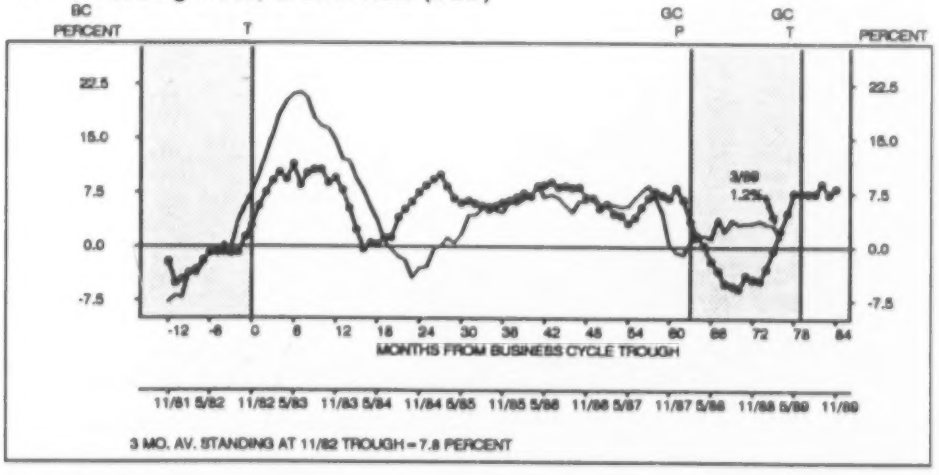
11. Leading Employment Index, Growth Rate (CIBCR)



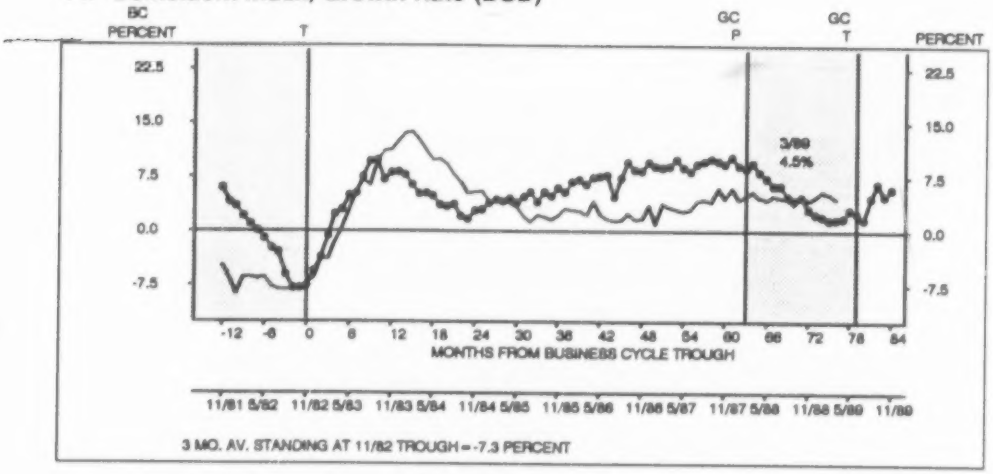
12. Coincident Employment Index, Growth Rate (CIBCR)



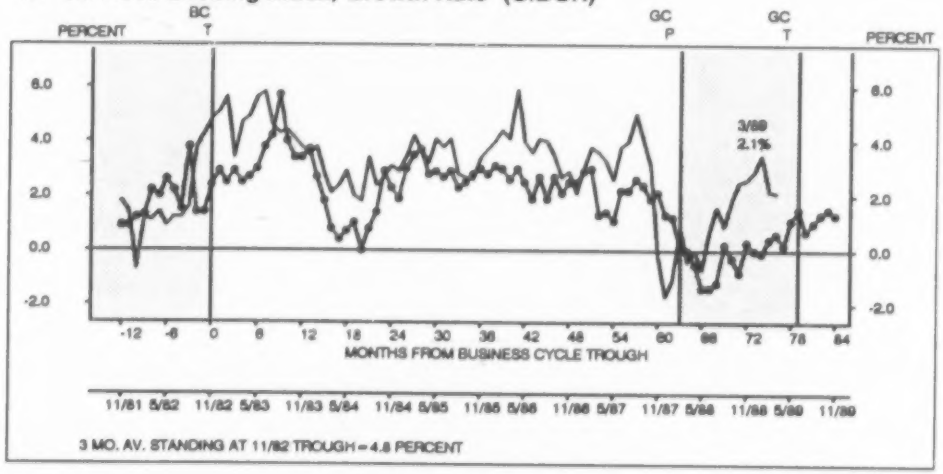
13. Leading Index, Growth Rate (BCD)



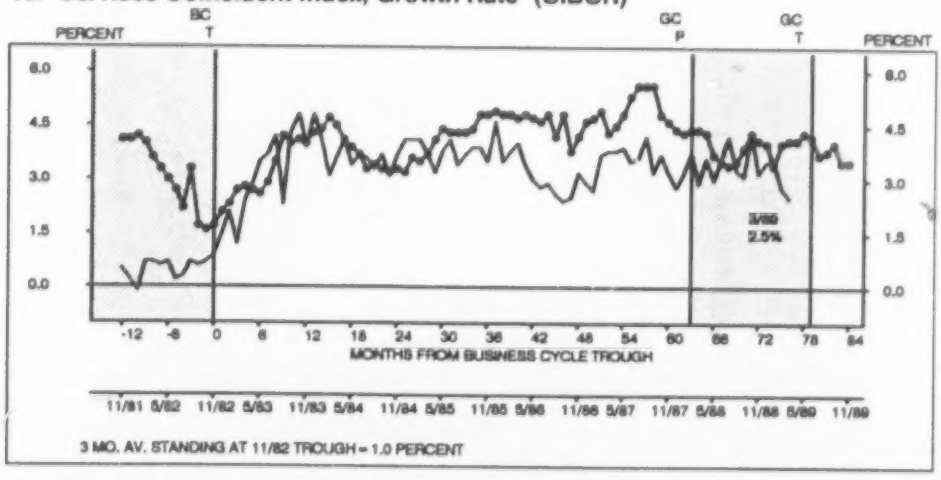
14. Coincident Index, Growth Rate (BCD)



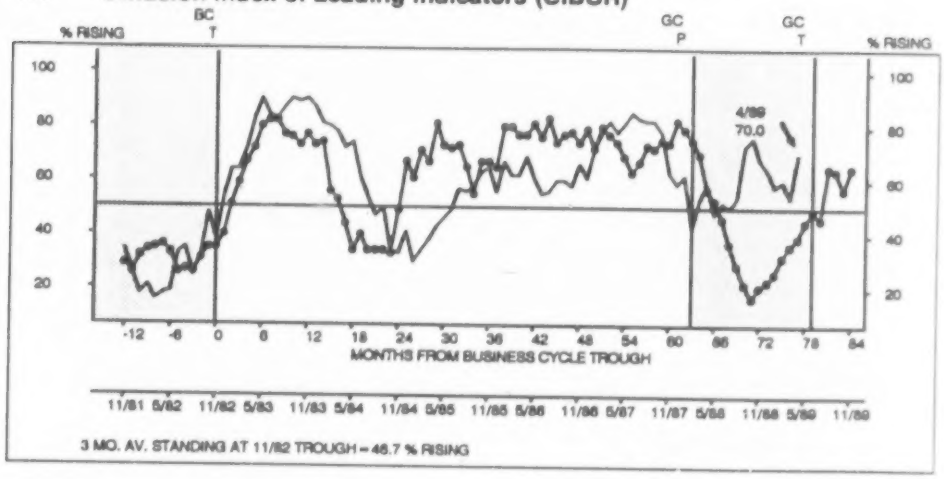
15. Services Leading Index, Growth Rate (CIBCR)



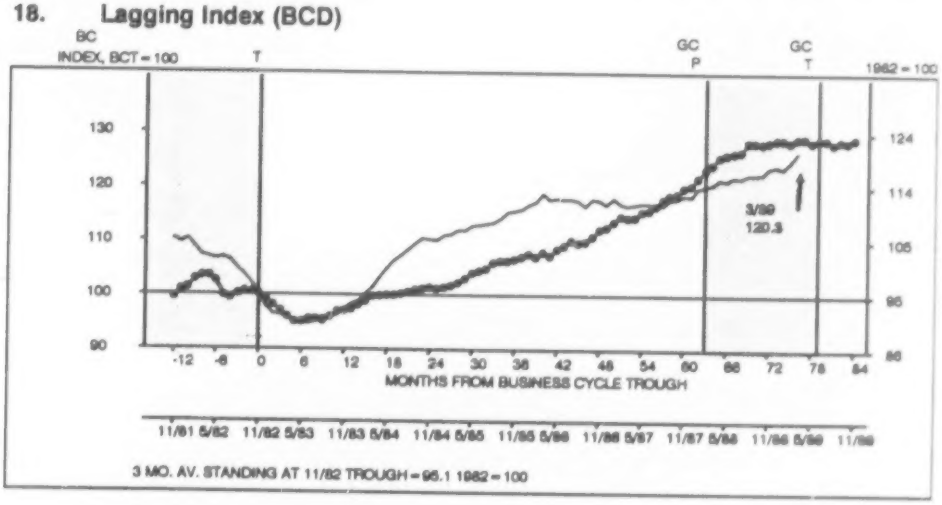
16. Services Coincident Index, Growth Rate (CIBCR)



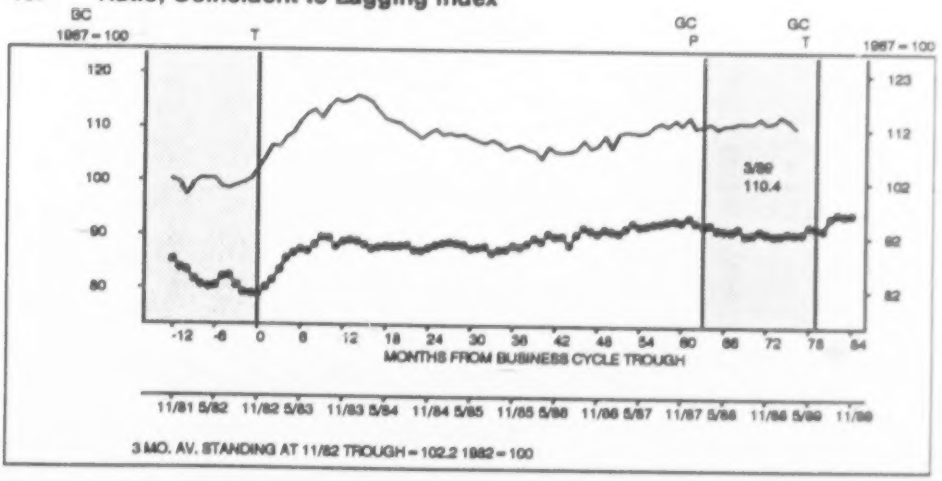
17. Diffusion Index of Leading Indicators (CIBCR)



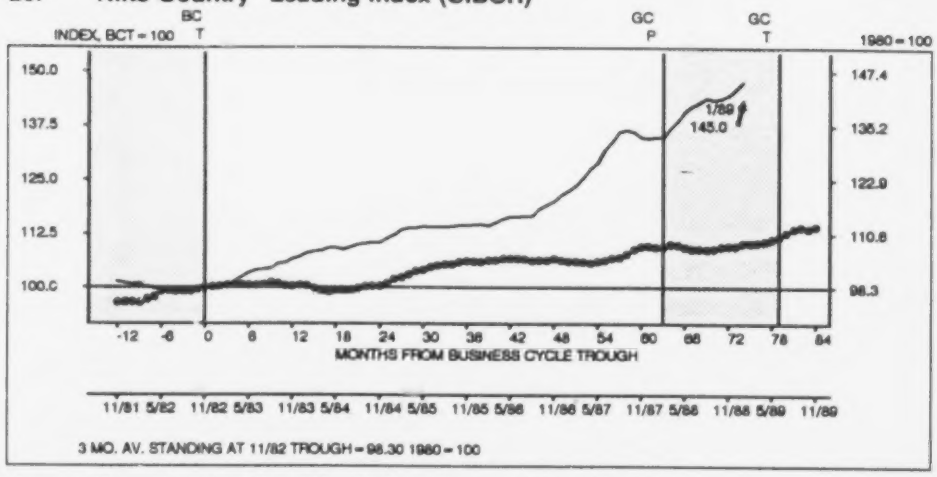
18. Lagging Index (BCD)



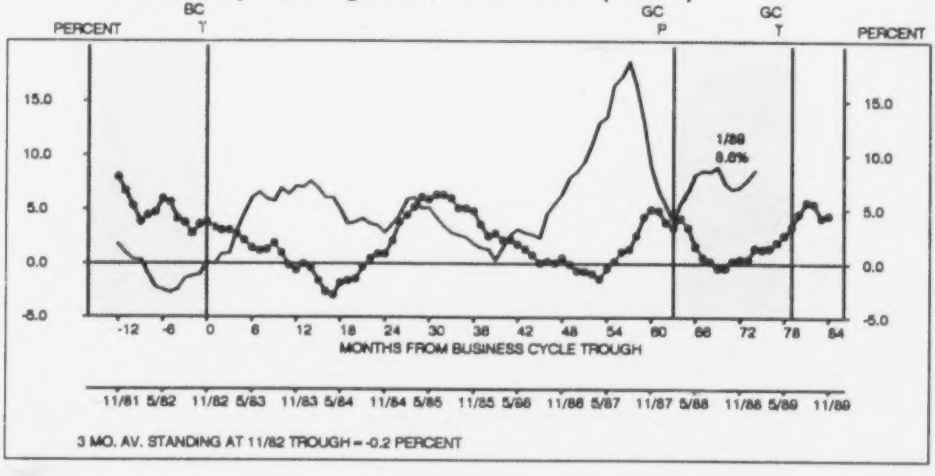
19. Ratio, Coincident to Lagging Index



20. Nine-Country* Leading Index (CIBCR)



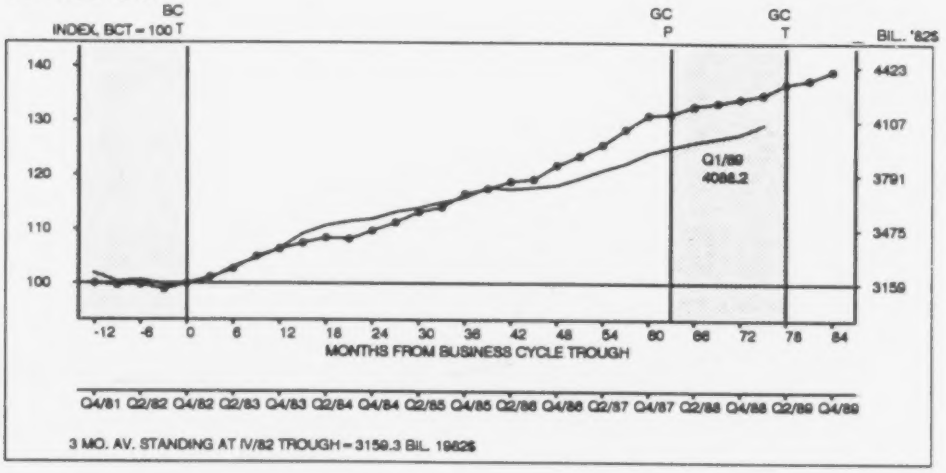
21. Nine-Country* Leading Index, Growth Rate (CIBCR)



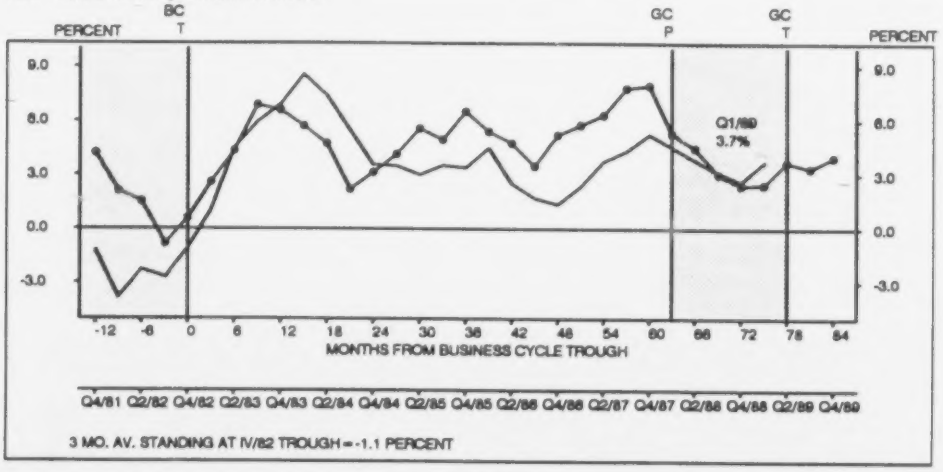
Prospects for U.S. Exports still look favorable.

*Canada, United Kingdom, West Germany, France, Italy, Japan, Australia, Taiwan, R.O.C. and Korea, R.O.K.

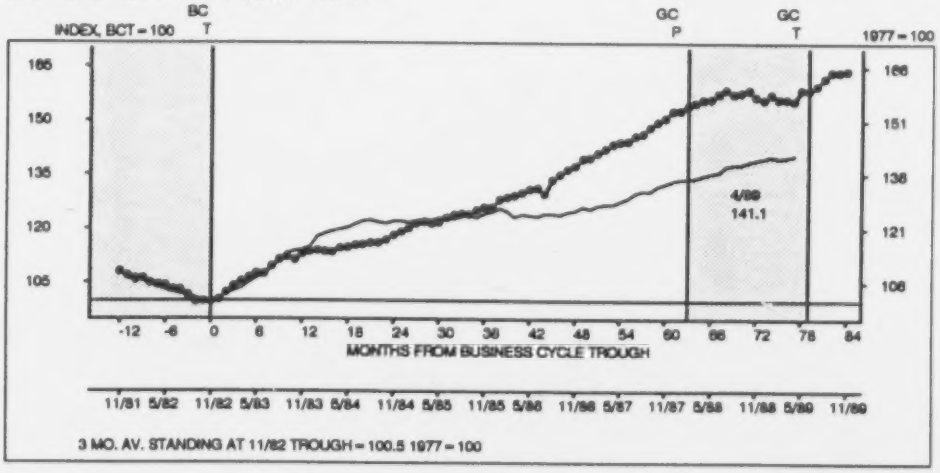
22. Real GNP



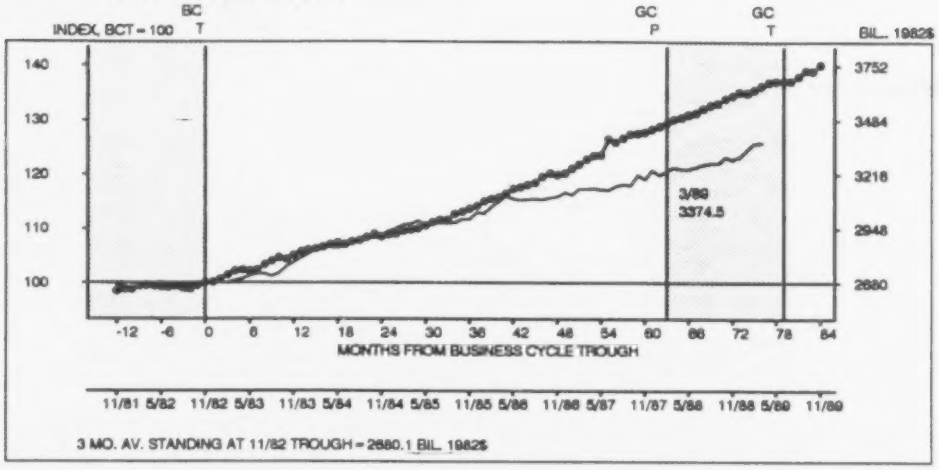
23. Real GNP, Growth Rate



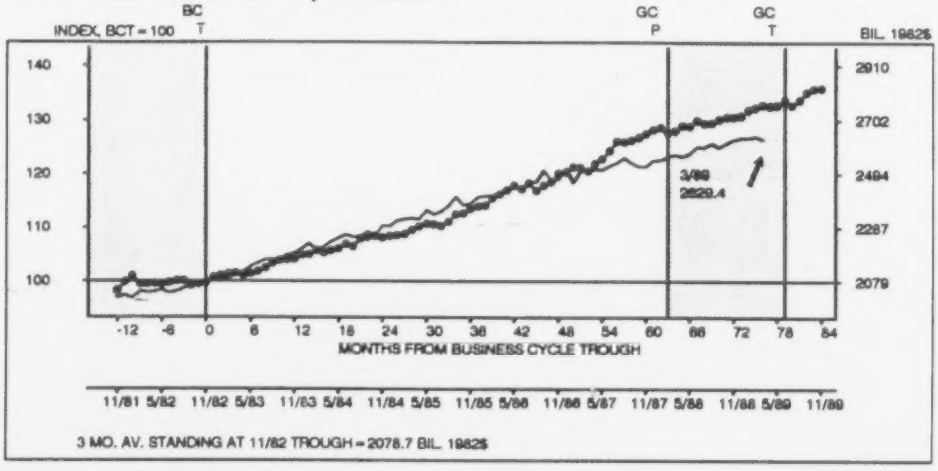
24. Industrial Production Index



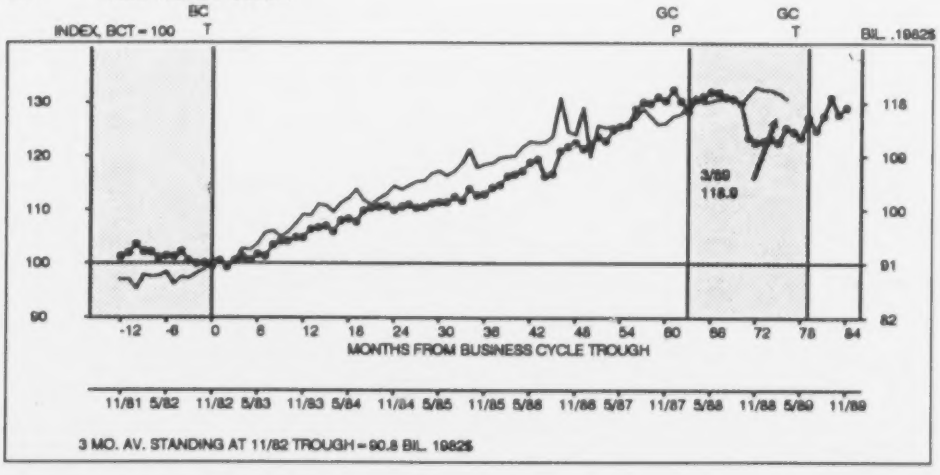
25. Real Personal Income



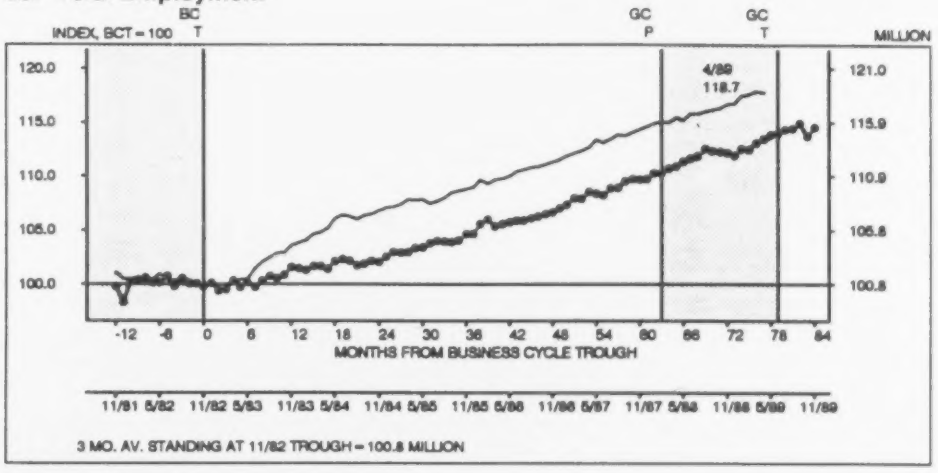
26. Real Consumer Expenditures



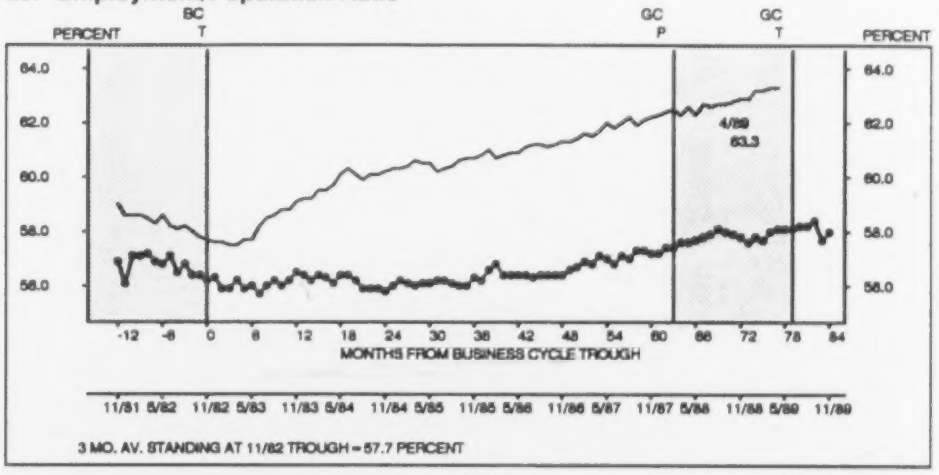
27. Real Retail Sales



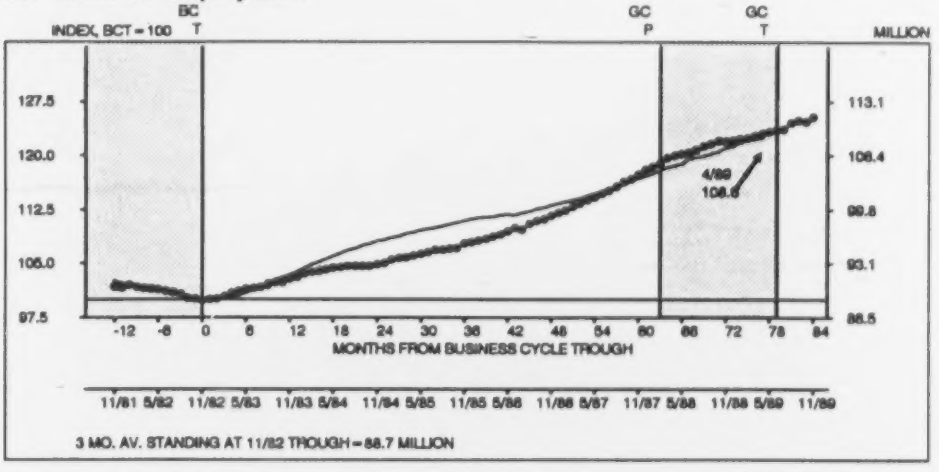
28. Total Employment



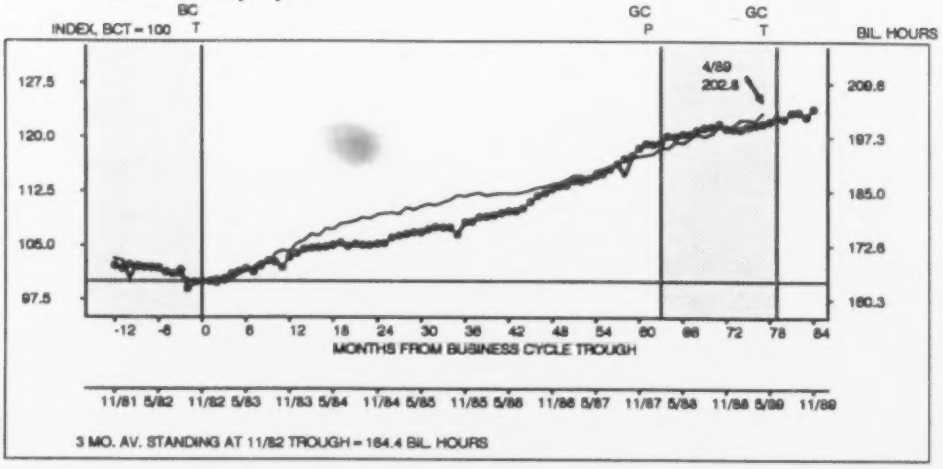
29. Employment/Population Ratio



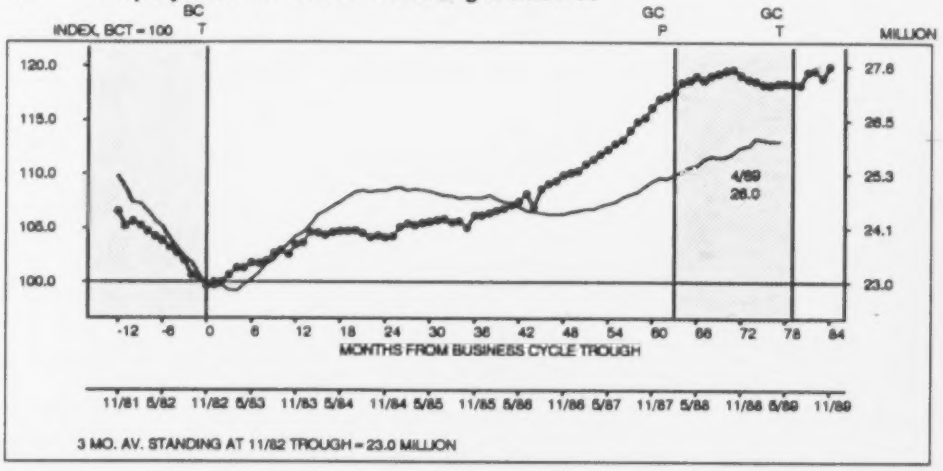
30. Nonfarm Employment



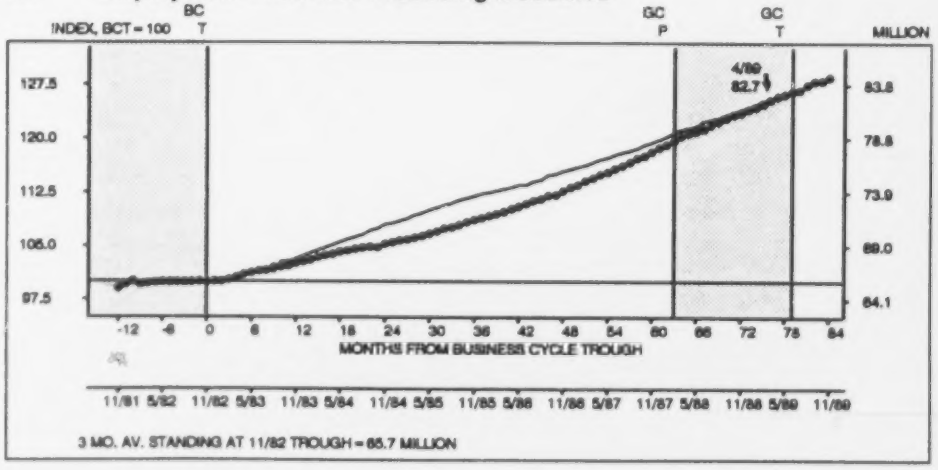
31. Nonfarm Employee-Hours



32. Employment in Goods-Producing Industries



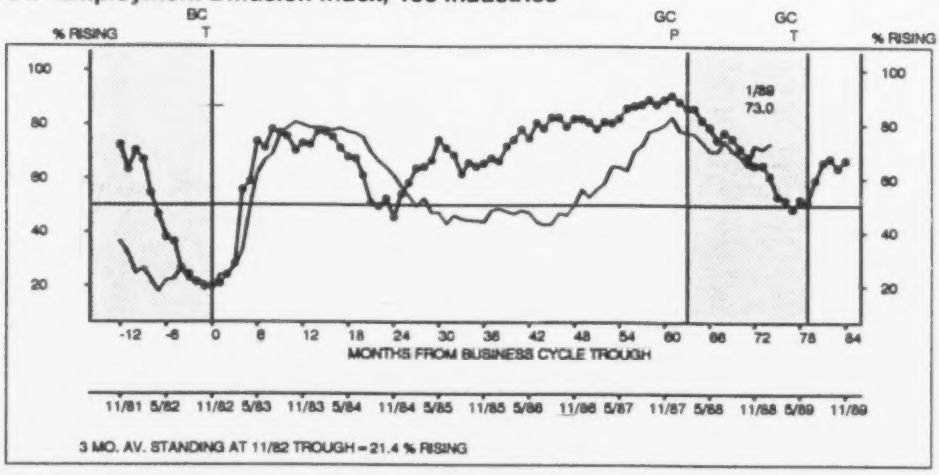
33. Employment in Service-Producing Industries



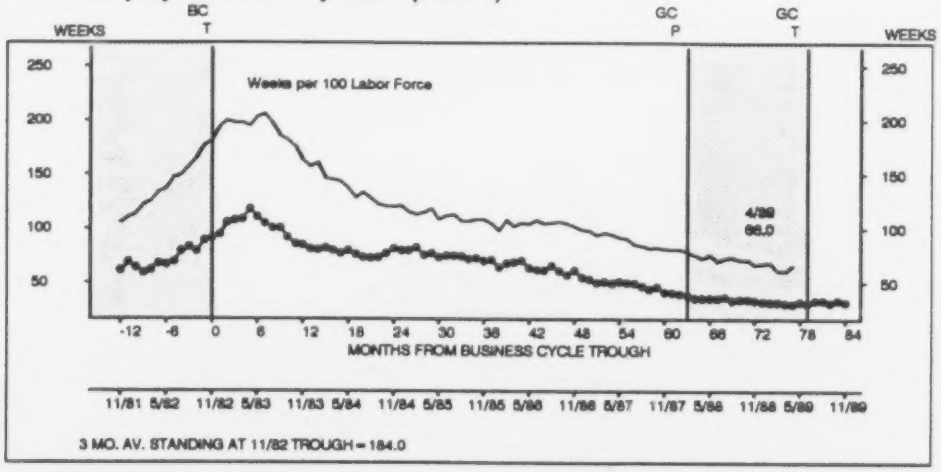
Employment in Goods-producing industries is flattening out ...

... but is offset by continued growth in employment in Service-producing industries.

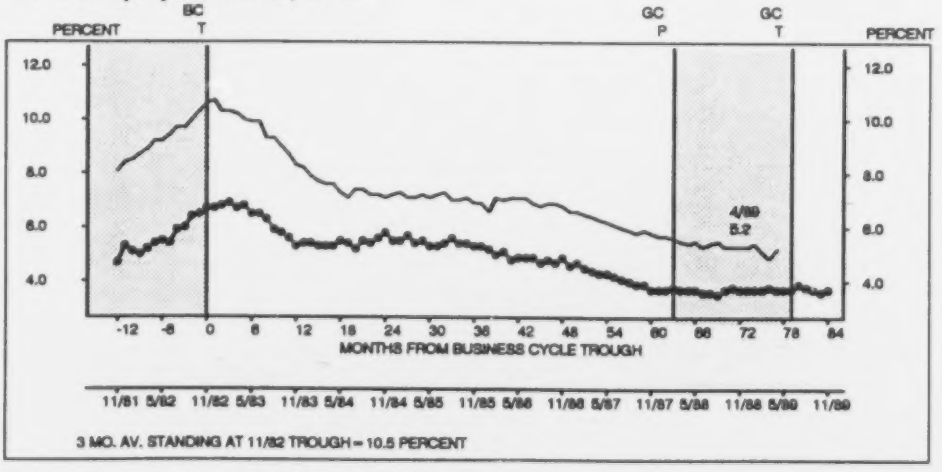
34. Employment Diffusion Index, 186 Industries



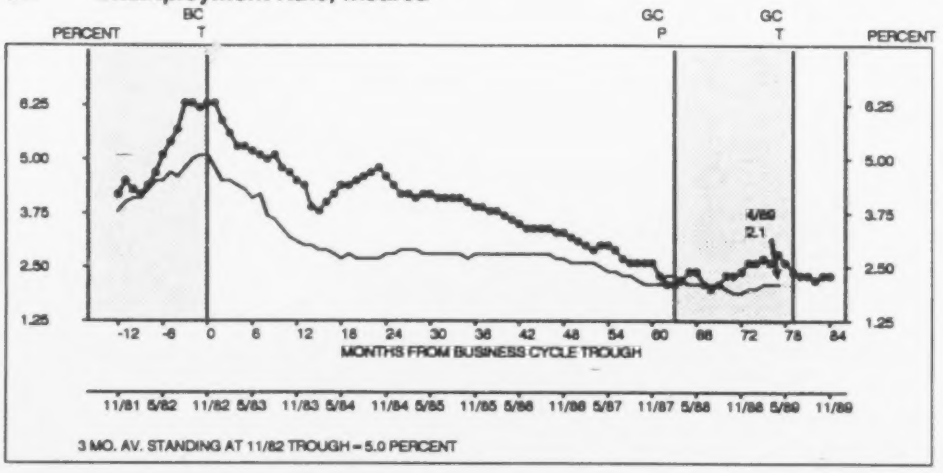
35. Unemployment Severity Index (CIBCR)



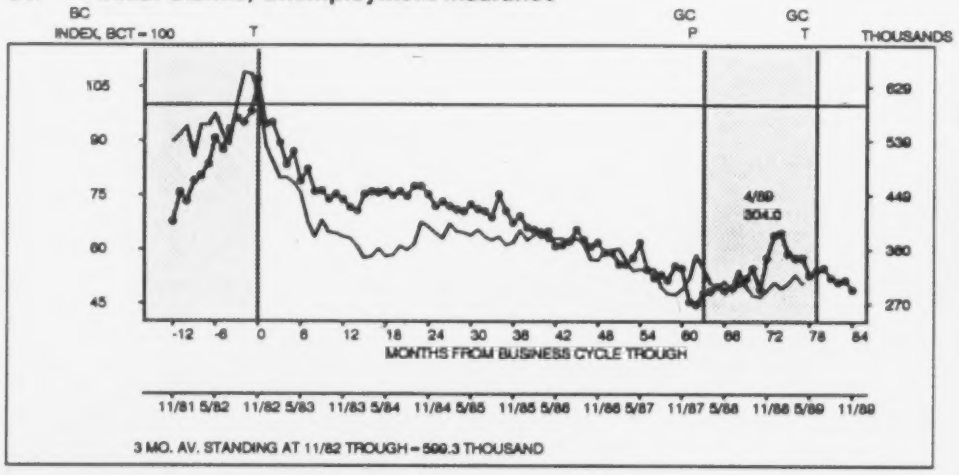
36. Unemployment Rate, Total



37. Unemployment Rate, Insured

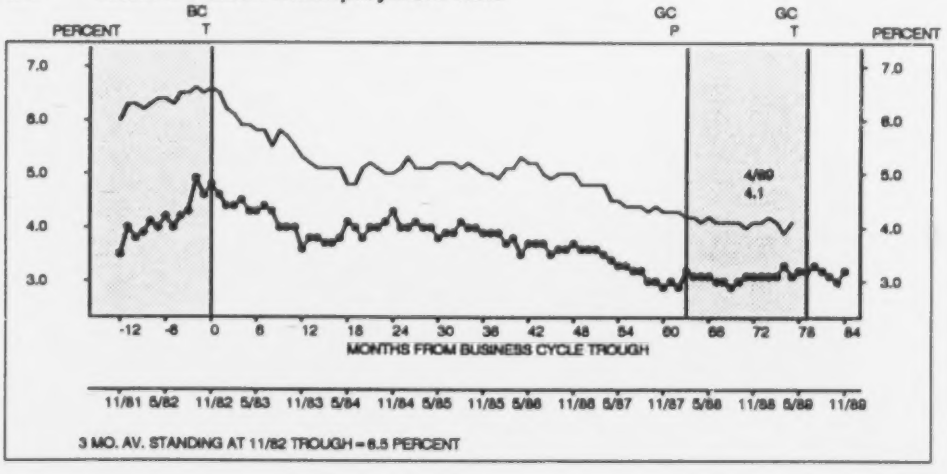


38. Initial Claims, Unemployment Insurance

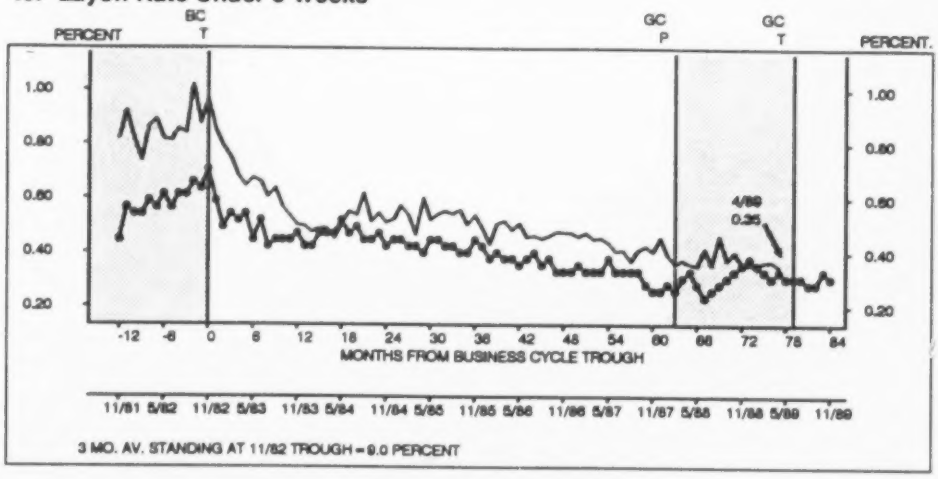


Initial Claims, which usually go up before the economy peaks, seem to be rising a bit.

39. Short-Duration Unemployment Rate

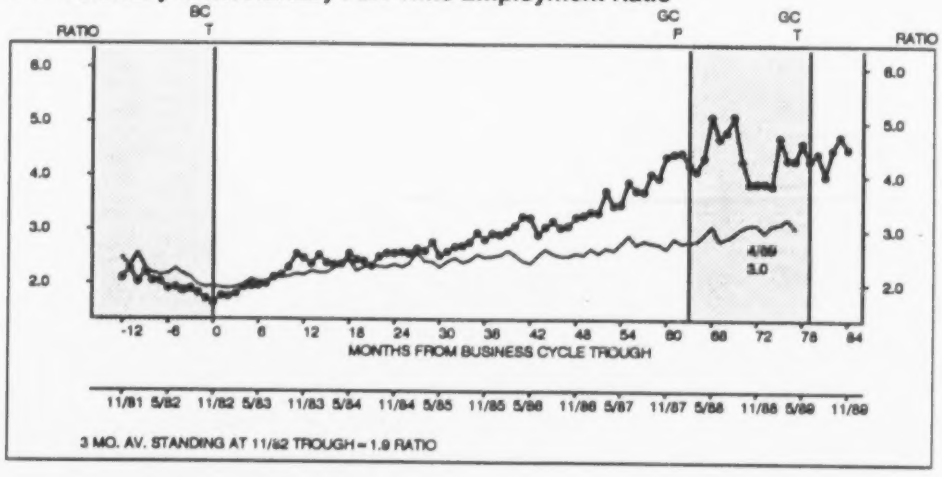


40. Layoff Rate Under 5 Weeks

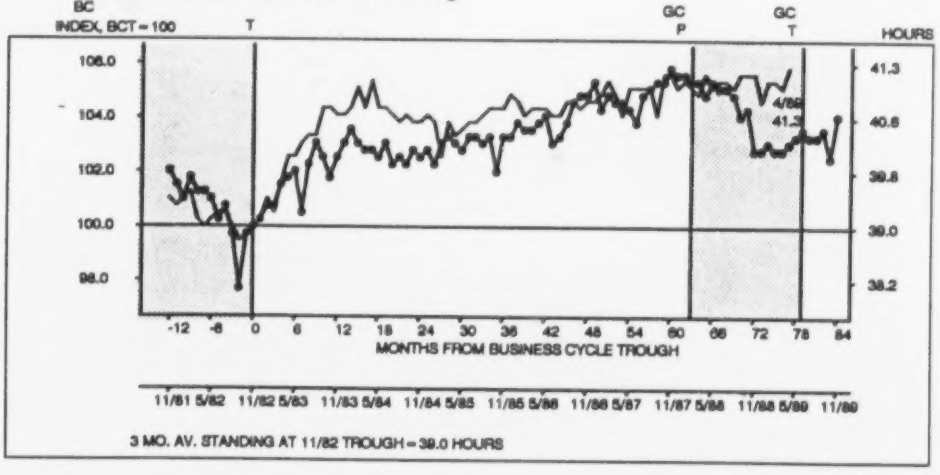


The layoff rate is at a new low for the current expansion.

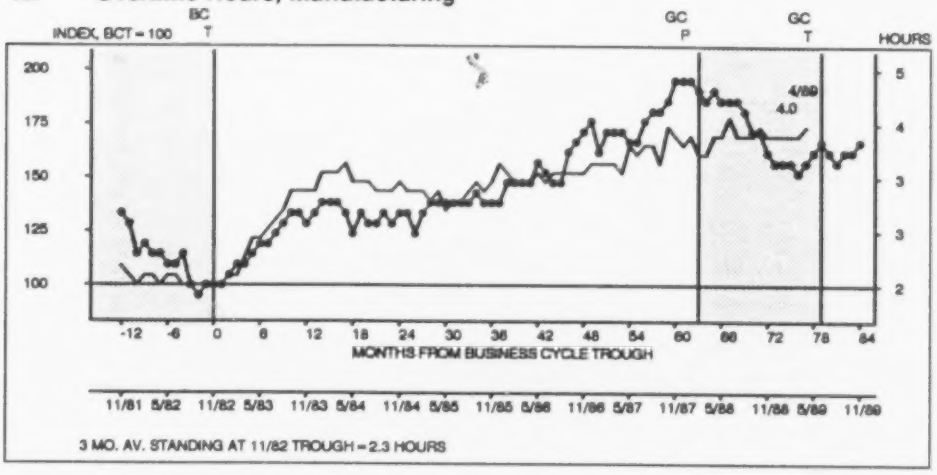
41. Voluntary to Involuntary Part-Time Employment Ratio



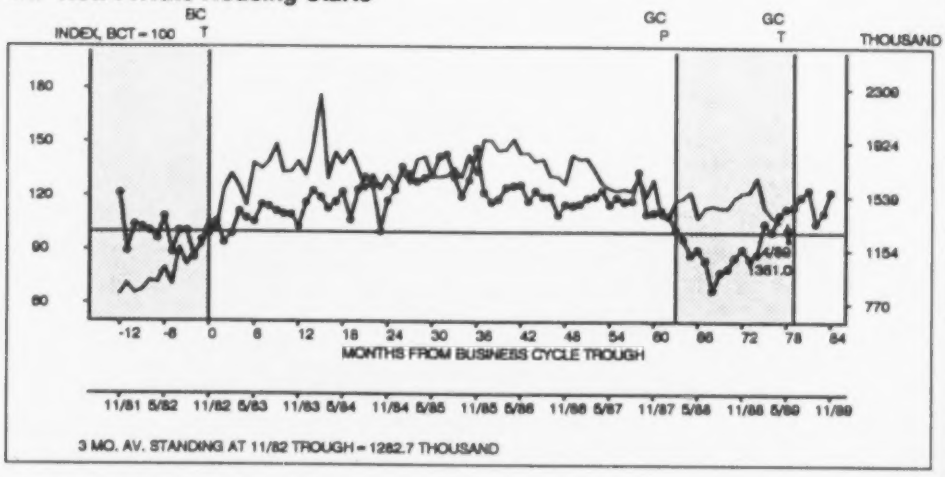
42. Average Workweek, Manufacturing



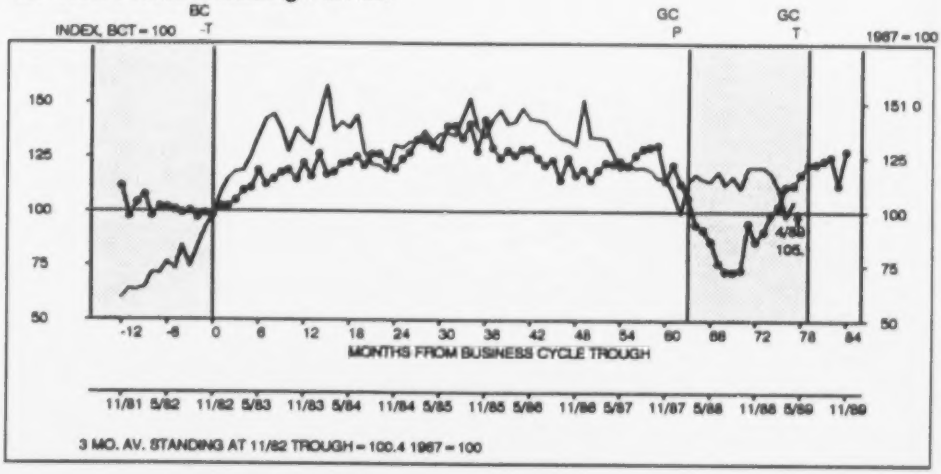
43. Overtime Hours, Manufacturing



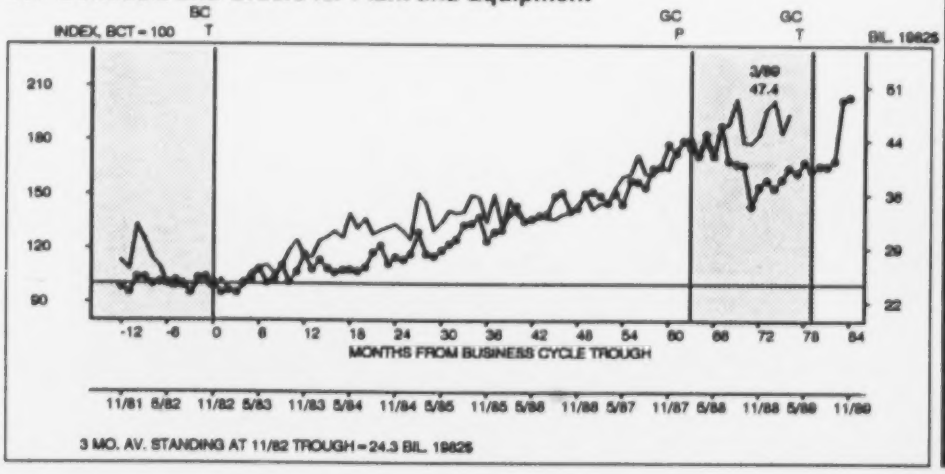
44. New Private Housing Starts



45. New Private Housing Permits



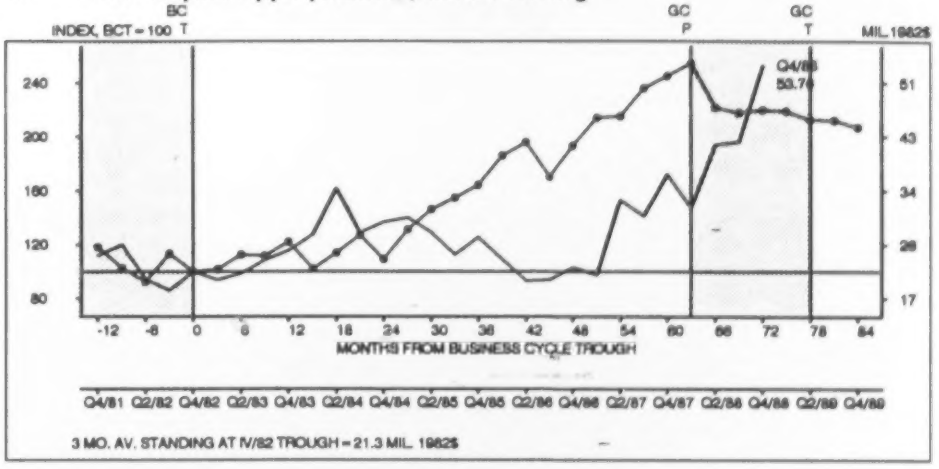
46. Contracts and Orders for Plant and Equipment



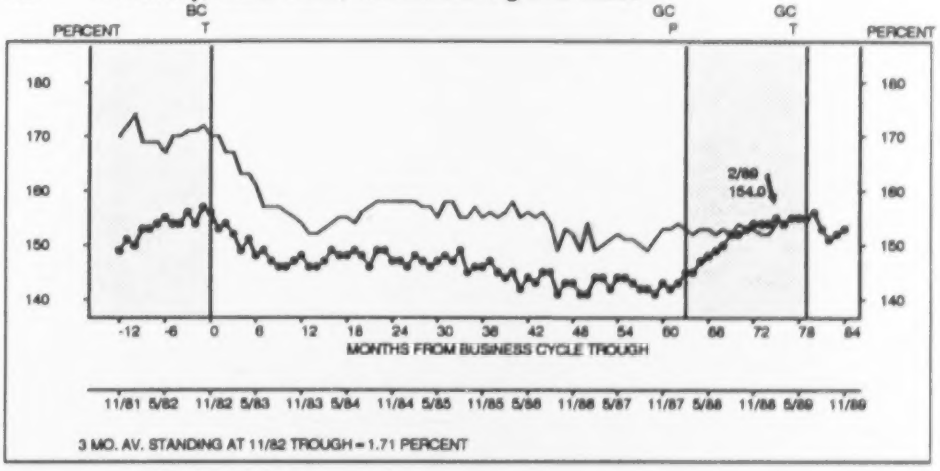
New housing is slowing down ...

... but orders for plant and equipment are still strong.

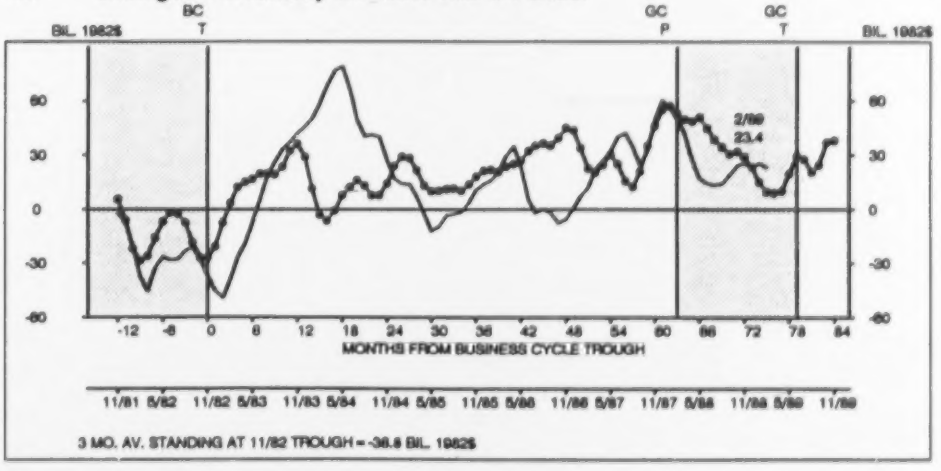
47. New Capital Appropriations, Manufacturing



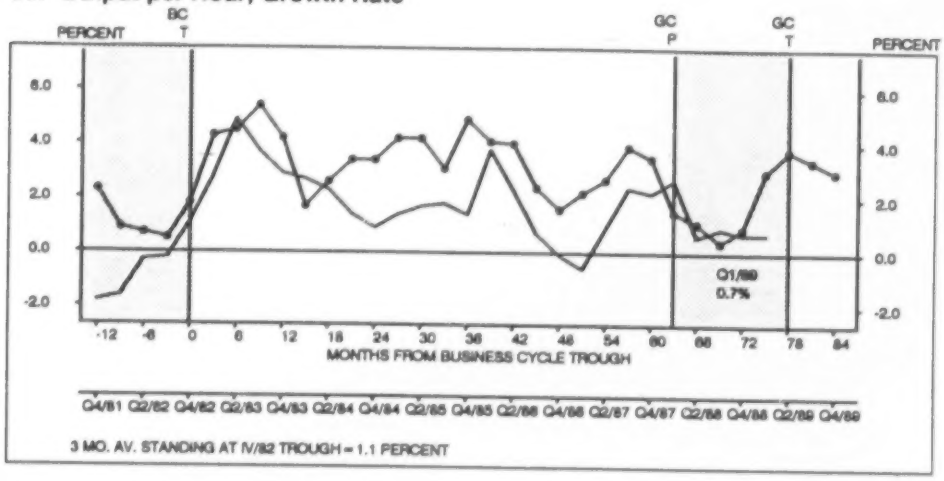
48. Inventory/Sales Ratio, Manufacturing and Trade



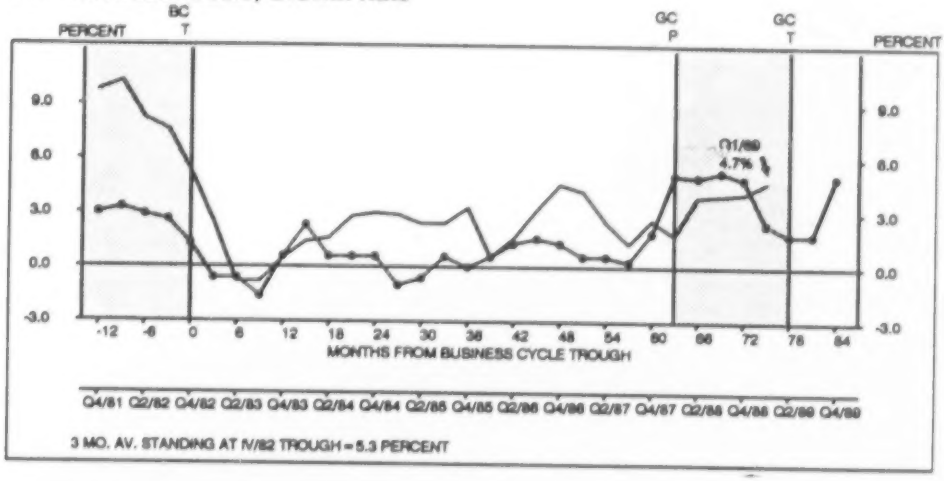
49. Change in Inventory on Hand and on Order



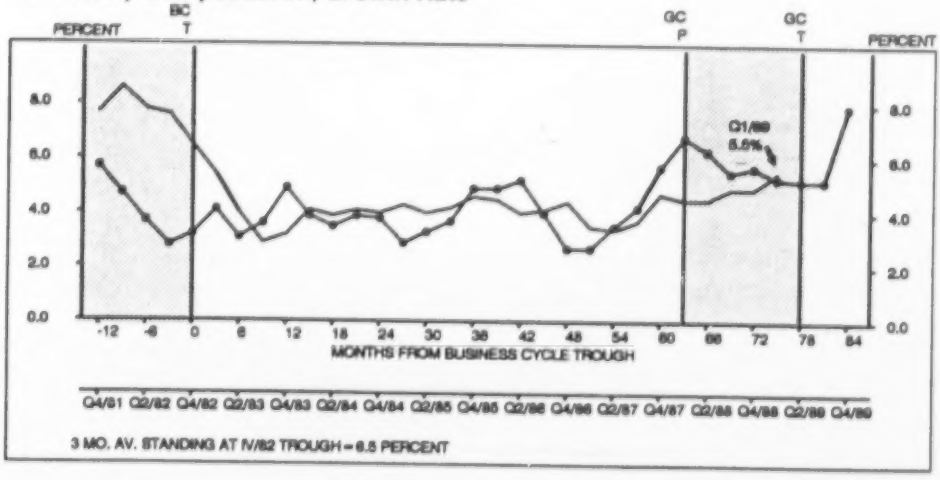
50. Output per Hour, Growth Rate



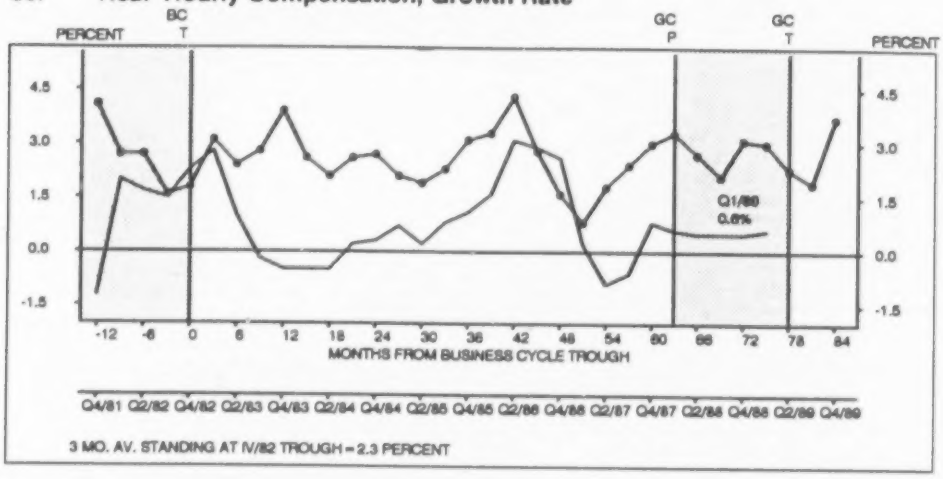
51. Unit Labot Costs, Growth Rate



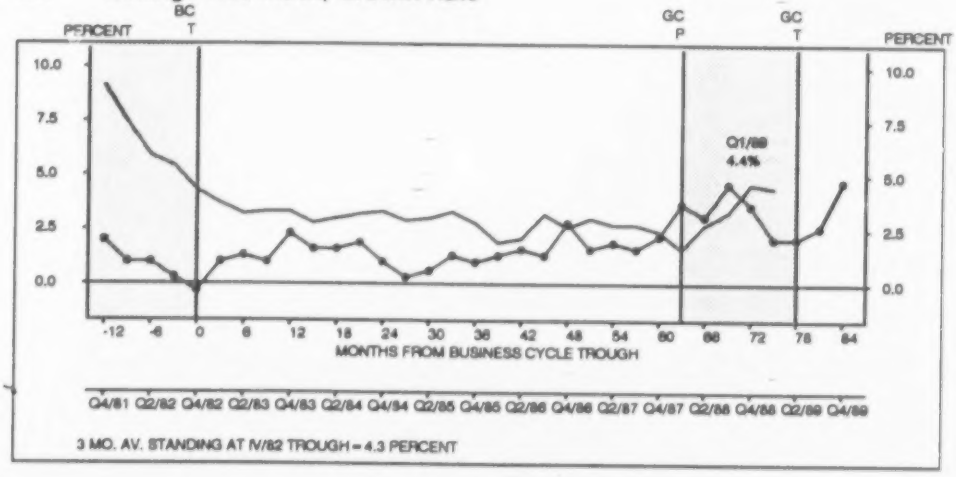
52. Hourly Compensation, Growth Rate



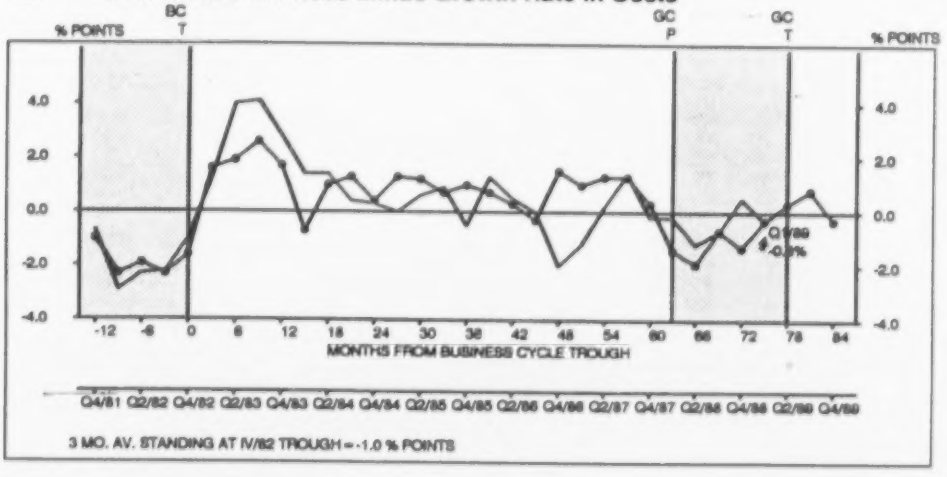
53. Real Hourly Compensation, Growth Rate



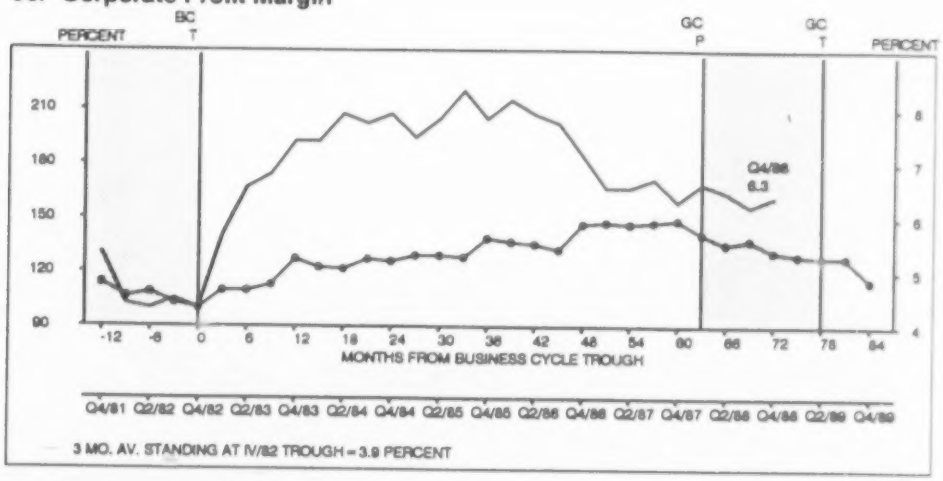
54. Selling Price Index, Growth Rate



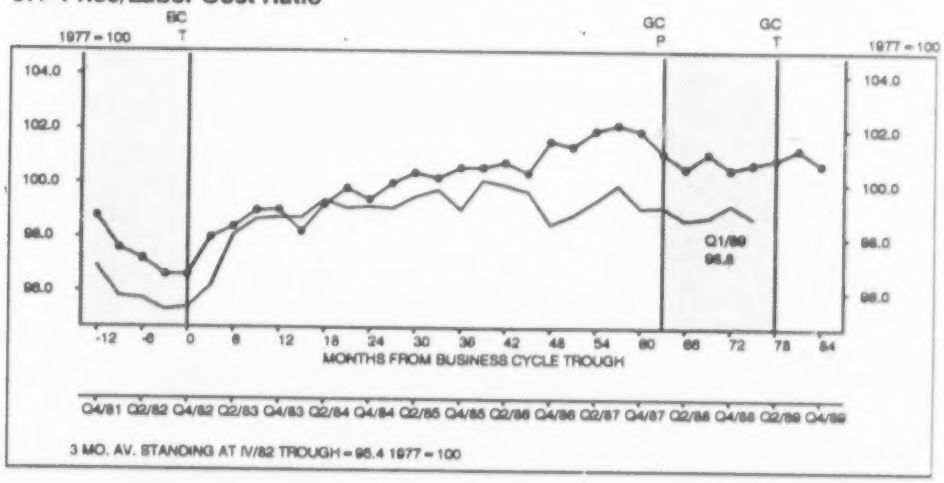
55. Growth Rate in Prices Minus Growth Rate in Costs



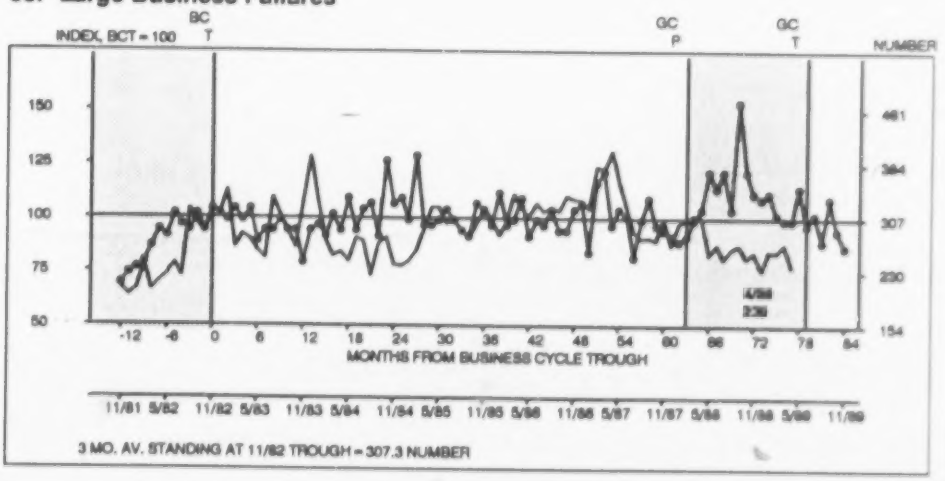
56. Corporate Profit Margin



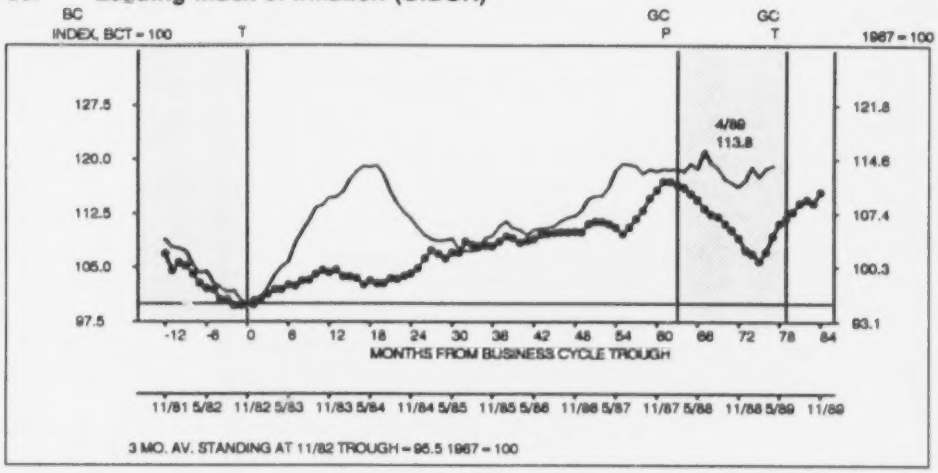
57. Price/Labor Cost Ratio



58. Large Business Failures

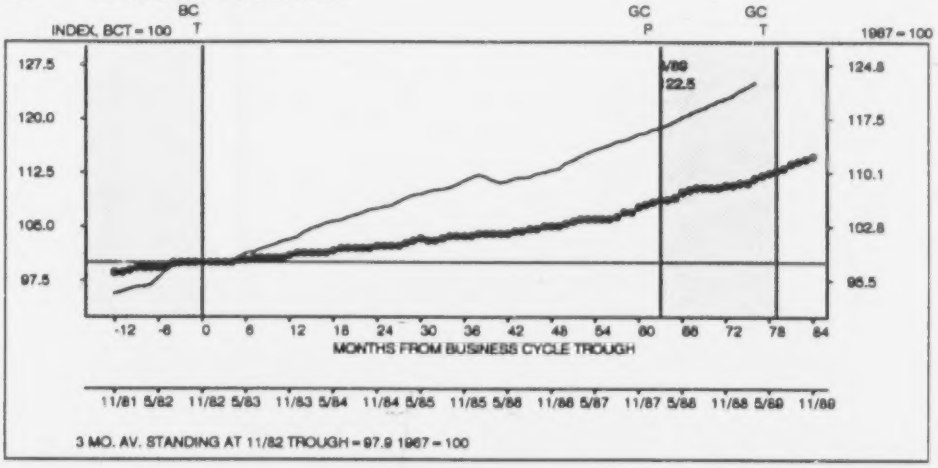


59. Leading Index of Inflation (CIBCR)

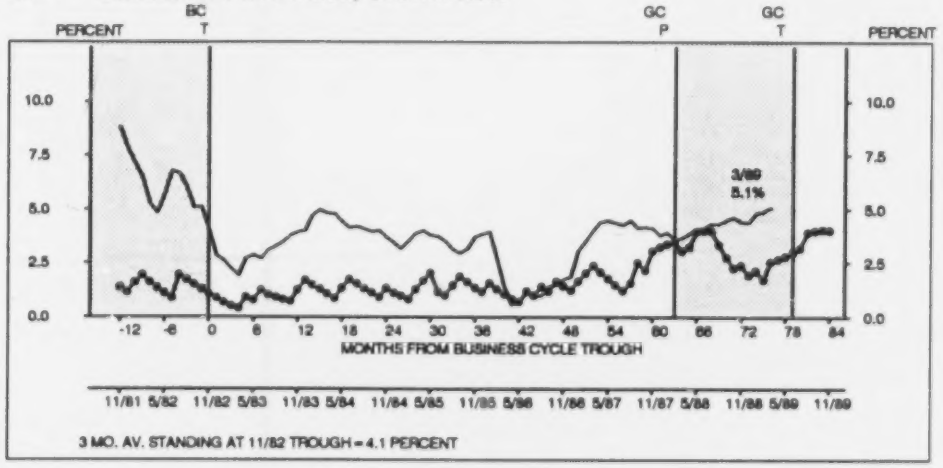


No let up in inflationary pressures.

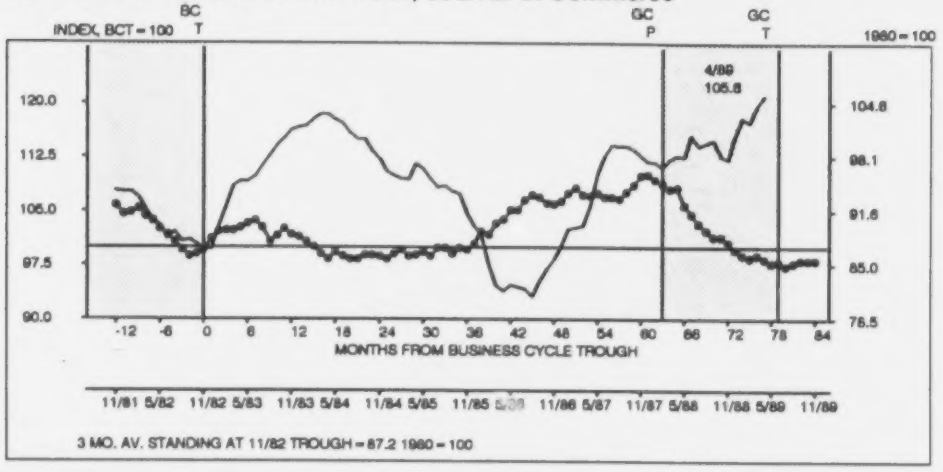
60. Consumer Price Index



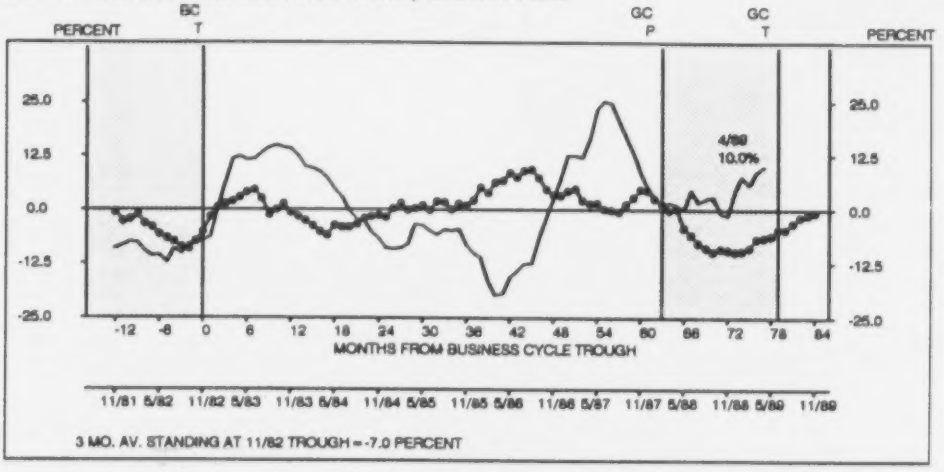
61. Consumer Price Index, Growth Rate



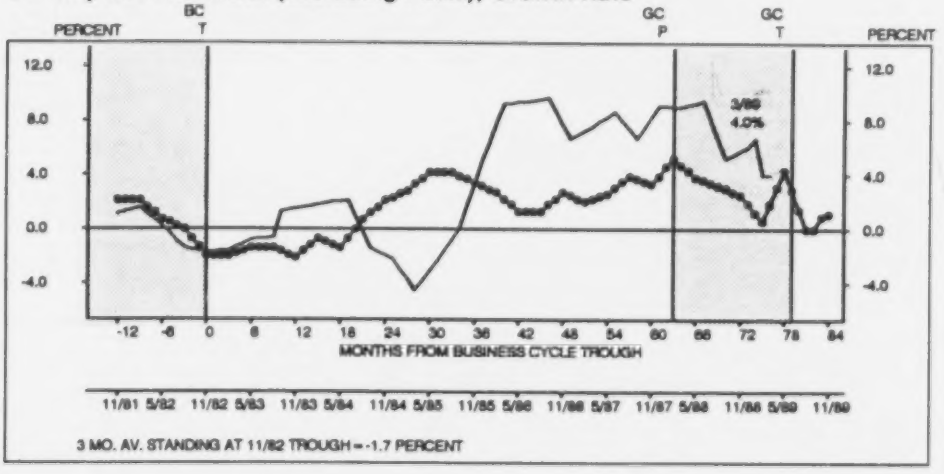
62. Industrial Materials Price Index, Journal of Commerce



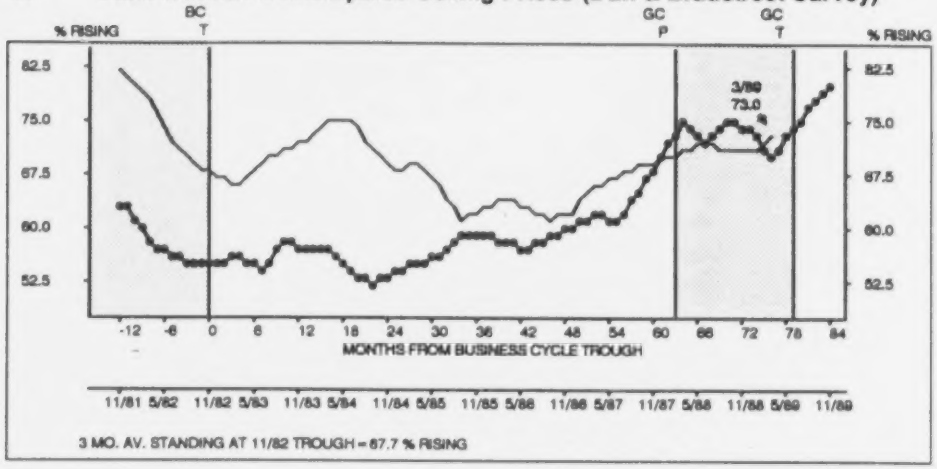
63. Industrial Materials Price Index, Growth Rate



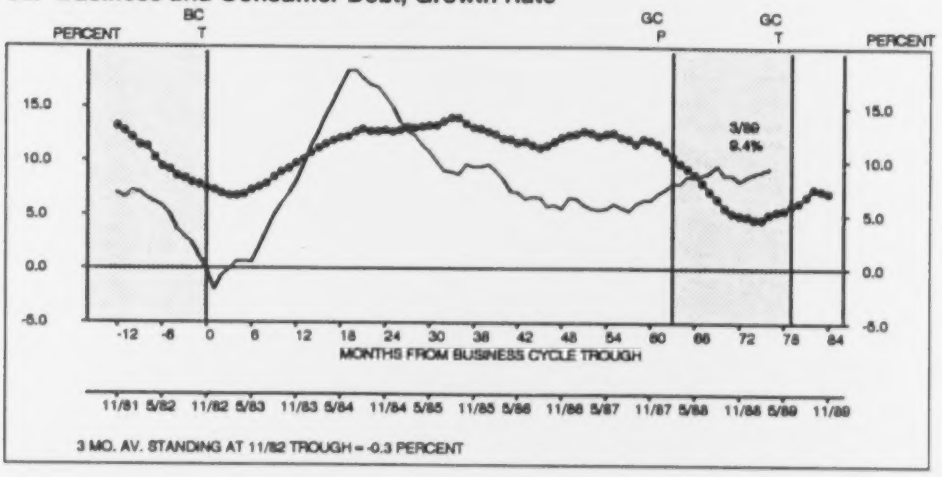
64. Import Price Index (Excluding Fuels), Growth Rate



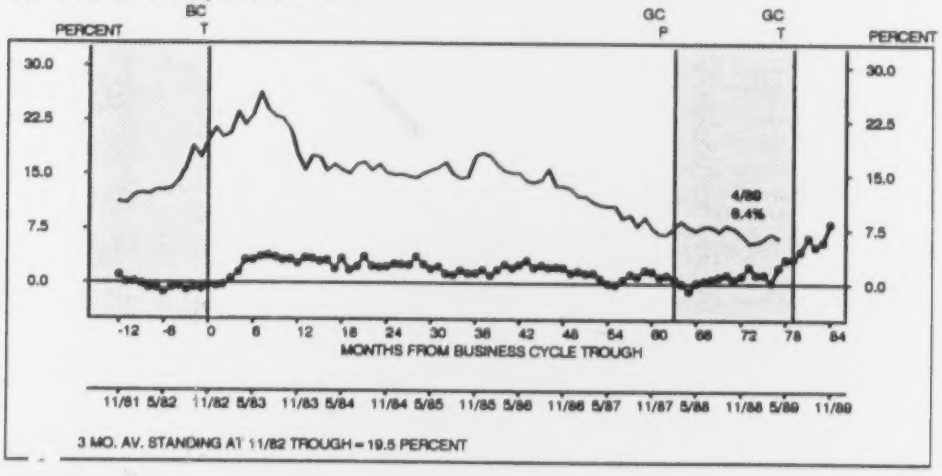
65. Businessmen's Anticipated Selling Prices (Dun & Bradstreet Survey)



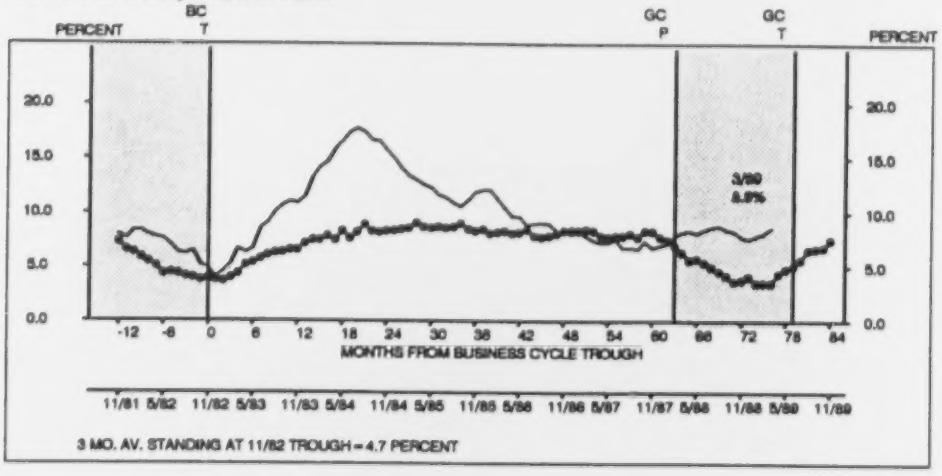
66. Business and Consumer Debt, Growth Rate



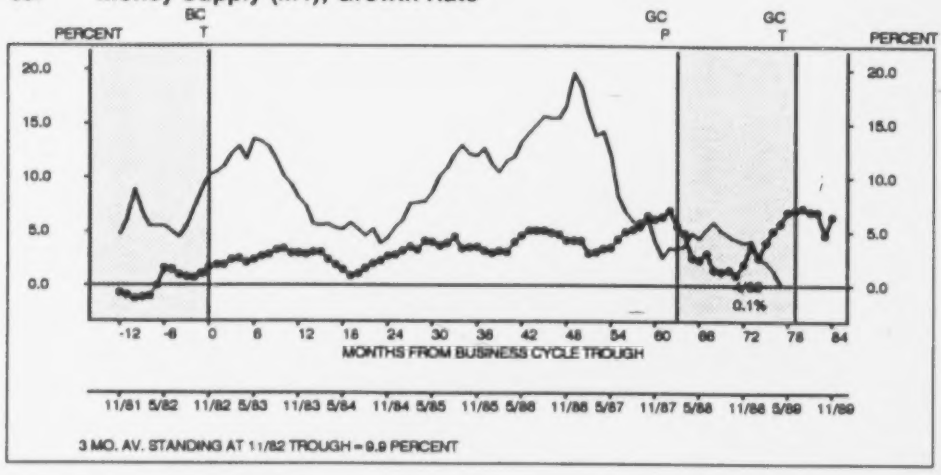
67. Federal Debt, Growth Rate



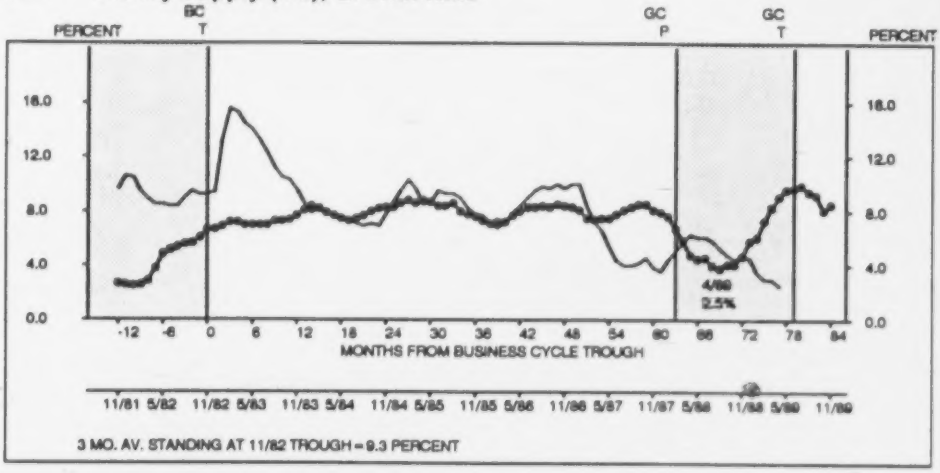
68. Total Debt, Growth Rate



69. Money Supply (M1), Growth Rate

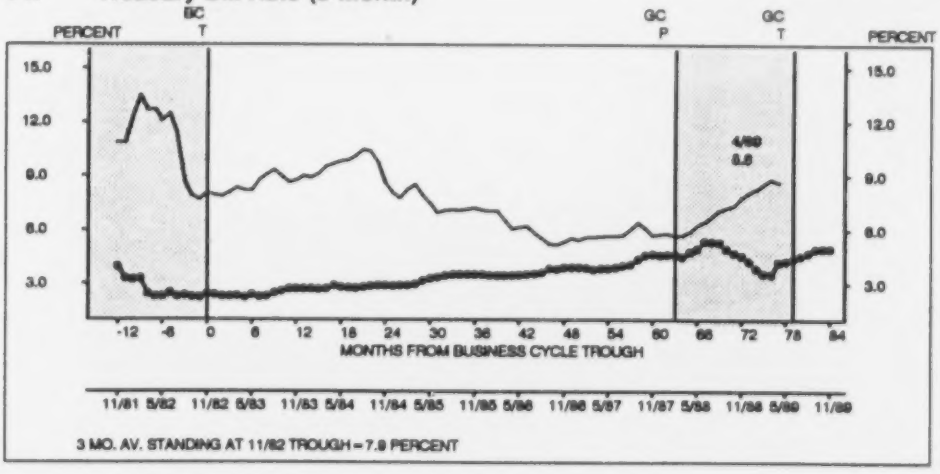


70. Money Supply (M2), Growth Rate

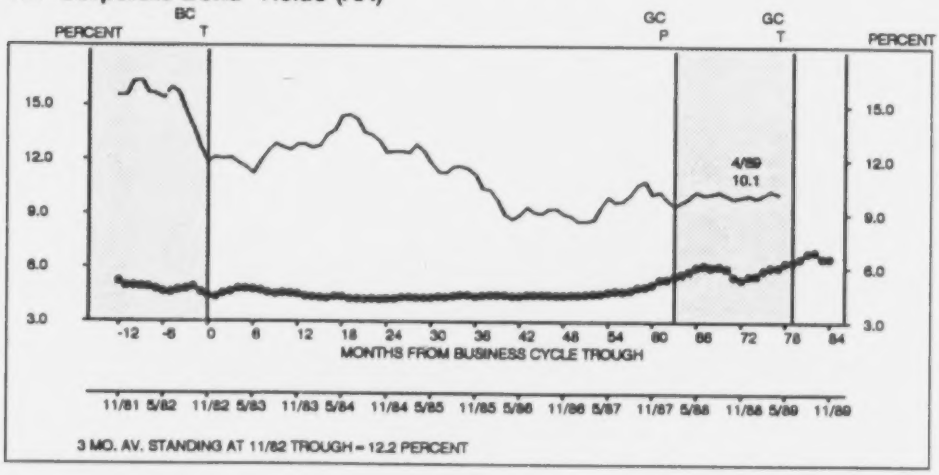


Money Supply growth has been sharply checked.

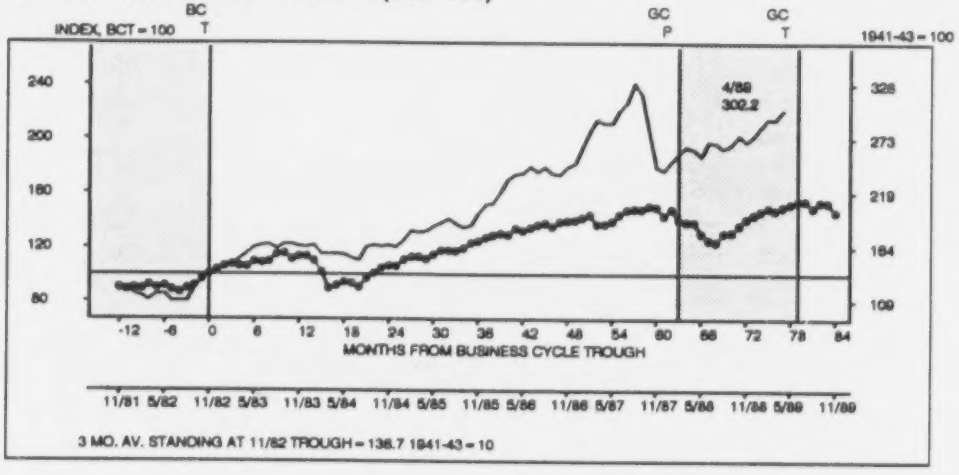
71. Treasury Bill Rate (3-Month)



72. Corporate Bond Yields (AA)



73. Common Stock Price Index (S&P 500)



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ABOUT THE CENTER FOR INTERNATIONAL BUSINESS CYCLE RESEARCH

The Center for International Business Cycle Research (CIBCR), established in 1979, specializes in the study of trends and fluctuations in economic growth and inflation in the United States and other countries. The analysis contained in this report is the result of the Center's ongoing research programs on U.S. business cycles. Readers are invited to submit comments and suggestions concerning this publication. In addition, readers wishing to secure data compiled by the Center on the nine other major industrial countries or copies of research reports may do so by communicating with:

Center for International Business Cycle Research
Uris Hall, Columbia University
New York, NY 10027
Telephone: (212) 280-2916

ABOUT THIS REPORT

Recession-Recovery Watch is a quarterly report designed to analyze current business cycle trends in terms of previous recession or recovery patterns in the United States.

This report was begun in August 1979, under the direction of Dr. Geoffrey H. Moore, following the methodology for measuring recessions developed at the National Bureau of Economic Research. Although no forecasts are made, the materials in this report do permit glimpses into the future: first, by analyzing the behavior of various leading indicators; second, by indicating what is likely to happen in terms of what did happen in previous recessions and recoveries.

The leading indicators used in this report are relevant to future output and employment because they represent actions taken, like the placing of orders, that will result in future output, or because they reflect factors, like profits, that influence future decisions on output. The record of what happens during the latter stages of business cycles is relevant because of the family resemblance among successive cycles, a resemblance that has its origin in the processes by which business cycles are generated. Every business cycle has its own surprises, partly because of policy actions taken, but many developments are not surprising, having occurred many times before. The historical comparisons contained in this report help one anticipate what is typical and distinguish it from the unusual.

Other CIBCR publications include International Economic Indicators, a monthly 80-page compilation of charts and data on leading and coincident indicators for ten industrial countries. Monthly press releases are issued on a leading index of inflation and a leading employment index for the United States. A bulletin on leading and coincident Service Sector Indicators is also published monthly.

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RECESSION–RECOVERY WATCH...

A Quarterly Report Designed to Assist in the Evaluation of Current Business Conditions

Published by the Center for International Business Cycle Research,
Columbia Business School, Columbia University, New York, NY 10027

Dr. Geoffrey H. Moore
Director

Vol.11, No. 3
August 1989

Summary

Our tentative date for the beginning of the economic slowdown that seems to be underway is February 1989. Seven previous slowdowns of this type were followed by recessions, while four were not. The CIBCR's long-leading index has proved capable of distinguishing one type of slowdown from the other when they get to be four or five months old. So far, it does not indicate that a recession lies ahead but does suggest that the slowdown will continue. That is also the way we would read the rather mixed picture of strength and weakness shown by the other leading indexes in this report. The slowdown is likely to reduce the inflation rate, an outcome that has already been registered in the CIBCR's leading inflation index.

Soft Landing, Hard Landing or Just a Blip?

One way to distinguish soft landings from recessions is to compare growth cycles with business cycles. The U.S. has had eight business cycle recessions since 1948. All of them were preceded by slowdowns in real growth. What started as a soft landing ended up hard. But there were four slowdowns that did not turn into real recessions. They came in 1951-52, 1962-64, 1966-67, and 1984-87. They were pure soft landings.

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Technically, growth cycles are defined as periods of growth slower than the long-term rate of growth of the economy, alternating with periods of growth faster than the long term rate. These periods have averaged about twenty months in length, but some have been shorter and some longer. To identify them, we need to know what the long-term rate of growth is, and this is not always an easy matter. The CIBCR uses a computer program designed to estimate a reasonably flexible trend that is not appreciably affected by the cyclical movements.

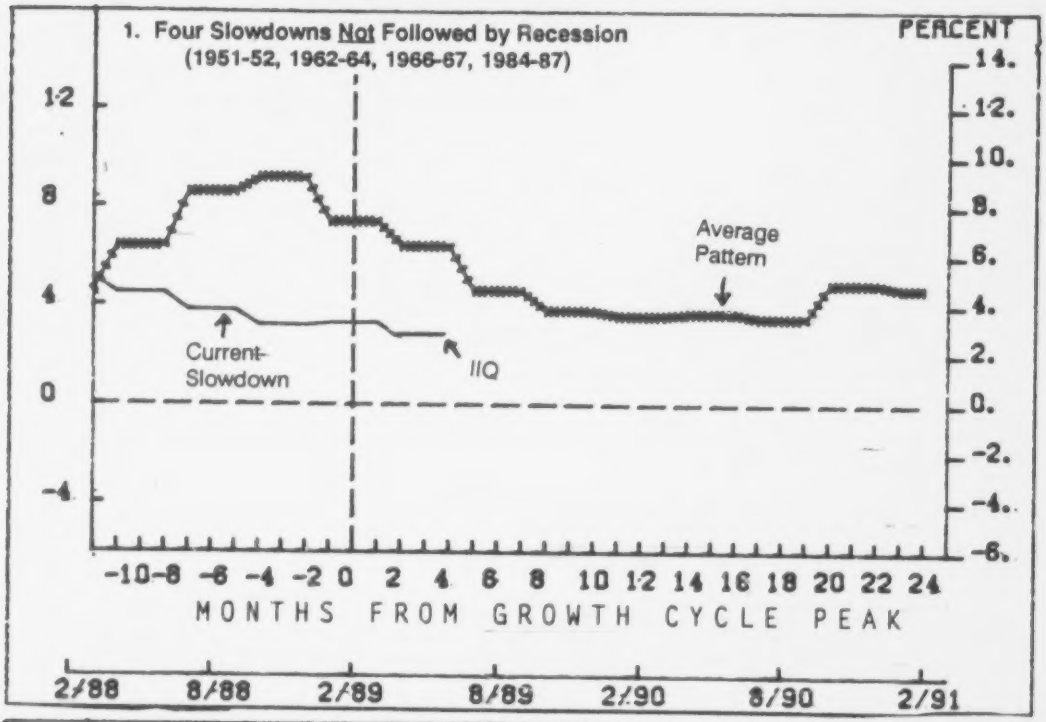
Getting back to the soft landing idea, the periods of below-trend growth can be divided into two groups. In one, the current growth rate went below the trend rate but did not become negative. These are the four soft landings mentioned above. In the other group, the current growth rate went below trend and then did become negative. These are the eight hard landings, or real recessions. Since the 1978-79 slowdown was followed by two recessions (in 1980 and in 1981-82) the eight recessions were preceded by seven slowdowns.

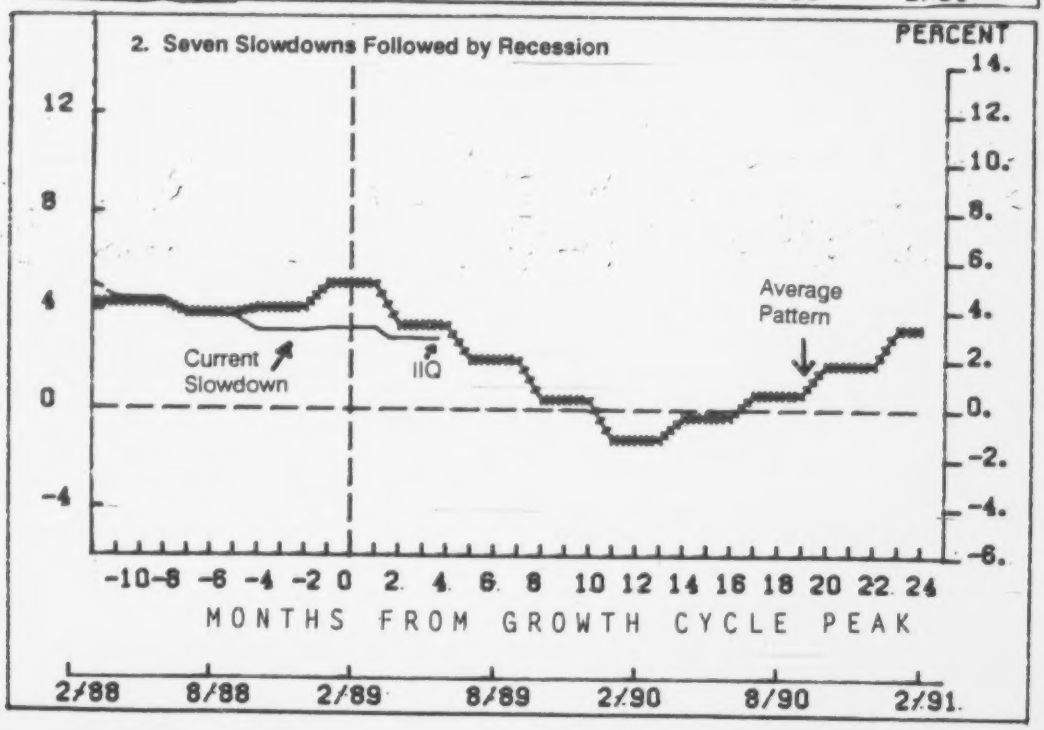
Where are we now? There is some evidence that the latest growth cycle peak came in February, 1989. That is indicated by the figures for two coincident indexes of economic activity, one compiled by the Commerce Department and the other by CIBCR. In both cases when we remove the long-run trend (2.7% per year) from the figures, February is the high to date (through July). These indexes include several comprehensive measures of production, employment, real income and sales. In terms of real GNP alone, the growth rate declined from 3.7% in the first quarter to 2.7% in the second. The latter is about on trend, and suggests that a growth cycle peak may have been reached sometime in the first quarter.

Chart A shows what the average pattern of growth in real GNP looked like during the four slowdowns that did not become recessions as compared with the seven that did. The current situation is also shown, on the assumption that a growth cycle peak was reached in February 1989, the middle of the first quarter. At this stage, the GNP figures look more like the pre-recession pattern, since the growth rates have recently been at a lower level than the average of the four slowdowns that did not become recessions. (Note that the rates used in Chart A are two-quarter smoothed rates, rather than the quarter-to-quarter rates cited above.)

Of course, if the economy's growth rate should accelerate sharply this autumn, the slowdown since February might prove to be just a blip. To assess this probability, the CIBCR's long-leading and short-leading indexes should be helpful. Both have slowed perceptibly since last winter. In January, the smoothed annual growth rate of the long-leader was 4.5% while the short-leader's growth rate was 4.6%. By July the rates were down to 3.4% and 1.0%, respectively. Neither index has signaled an acceleration, so the slowdown seems to be more than a blip, especially since the long-leader's growth rate gives warnings of upturns in the economy's growth rate at least six months in advance.

CHART A. REAL GNP GROWTH RATES BEFORE AND AFTER GROWTH CYCLE PEAKS


1. Four Slowdowns Not Followed by Recession
(1951-52, 1962-64, 1966-67, 1984-87)
PERCENT
Average Pattern
Current Slowdown
IIQ
-10 -8 -6 -4 -2 0 2 4 6 8 10 12 14 16 18 20 22 24
MONTHS FROM GROWTH CYCLE PEAK
2/88 8/88 2/89 8/89 2/90 8/90 2/91


2. Seven Slowdowns Followed by Recession
PERCENT
Average Pattern
Current Slowdown
IIQ
-10 -8 -6 -4 -2 0 2 4 6 8 10 12 14 16 18 20 22 24
MONTHS FROM GROWTH CYCLE PEAK
2/88 8/88 2/89 8/89 2/90 8/90 2/91

Charts B and C provide an historical picture of the long and short leading growth rates similar to Chart A for real GNP. The long-leading growth rate reaches an average level of about zero close to the date of the growth cycle peaks, whether a recession is about to follow or not. Only when the initial slowdown is four or five months old does the long-leader begin to distinguish between the slowdowns that will be followed by recession from those that will not. The short-leader goes through a similar routine several months later. The current patterns suggest that the slowdown will continue, but do not yet indicate that a recession lies ahead. Soft landing, here we come!

Another aspect of the soft-landing idea is that inflation should subside. Here we can place some reliance on the fact that slowdowns in real growth have nearly always been accompanied a bit later by slowdowns in the inflation rate. For more direct evidence, look at the CIBCR's leading index of inflation. Its decline between January and July has moved it down to its level in early 1987, when the inflation rate was 3 to 4%. If the CPI inflation rate follows the leader we may have seen the last of the recent 5 to 6% rates.

The Tenth Anniversary of Recession-Recovery Watch

In August 1979 the CIBCR launched what was then called *Recession Watch*. One of the key sentences describing the situation at that time could, except for the date, equally well describe the present.

"The economy has now entered another period of economic slowdown, the tenth, tentatively dated as having begun in December 1978, when aggregate economic activity fell below its trend rate."

The report went on to point out that during the first six months of previous slowdowns, the weakness in many measures of activity, both leading and coincident, tended to be greater during slowdowns that were followed by recessions compared to those that were not. On this basis some indicators, like real GNP, were then pointing to recession, while others, like stock prices, were not. As it turned out, the slowdown did become a recession in January 1980. We hope we won't have another tenth anniversary to celebrate in January 1990!!!

CHART B. LONG-LEADING INDEX GROWTH RATES BEFORE AND AFTER GROWTH CYCLE PEAKS

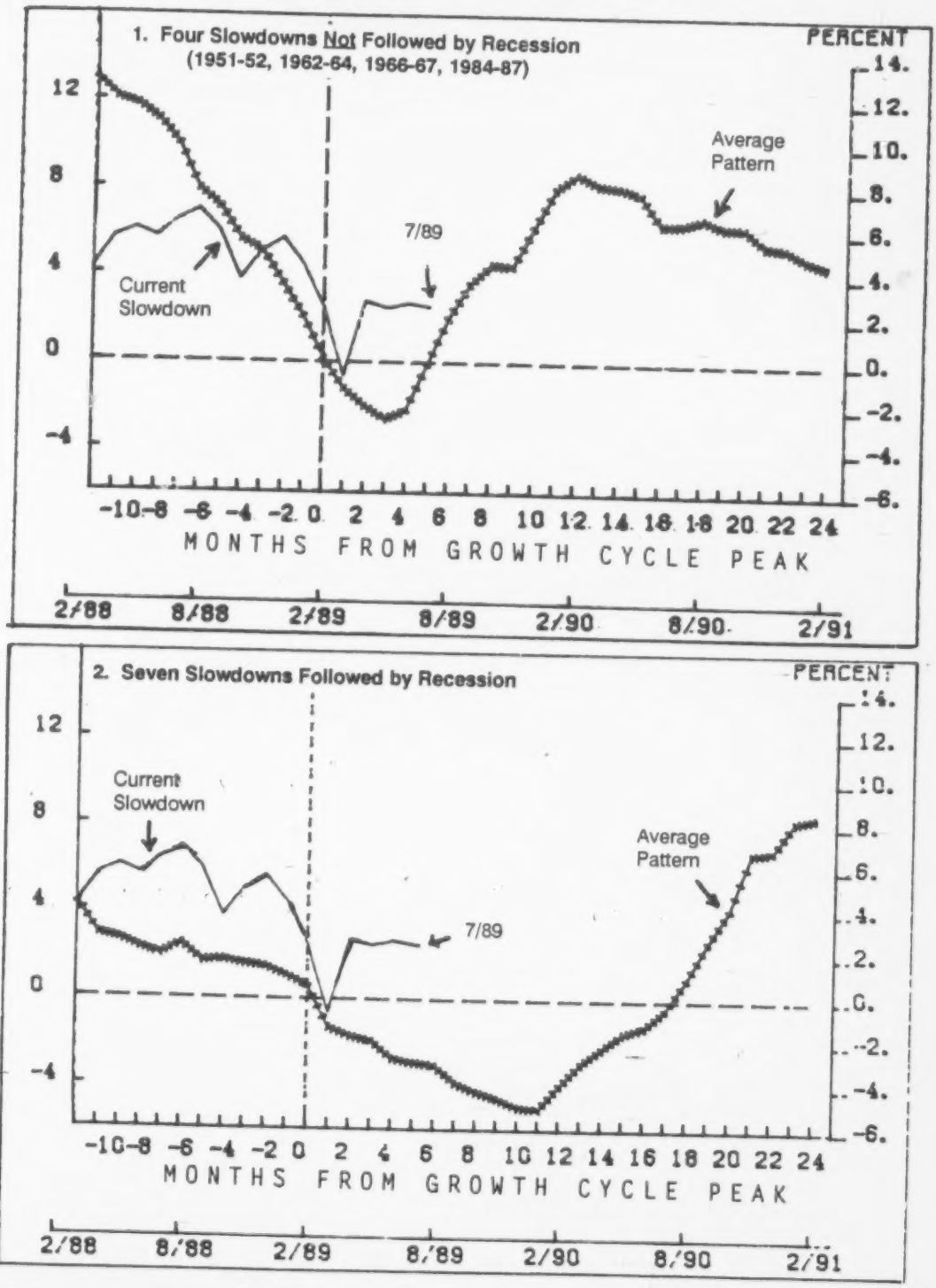
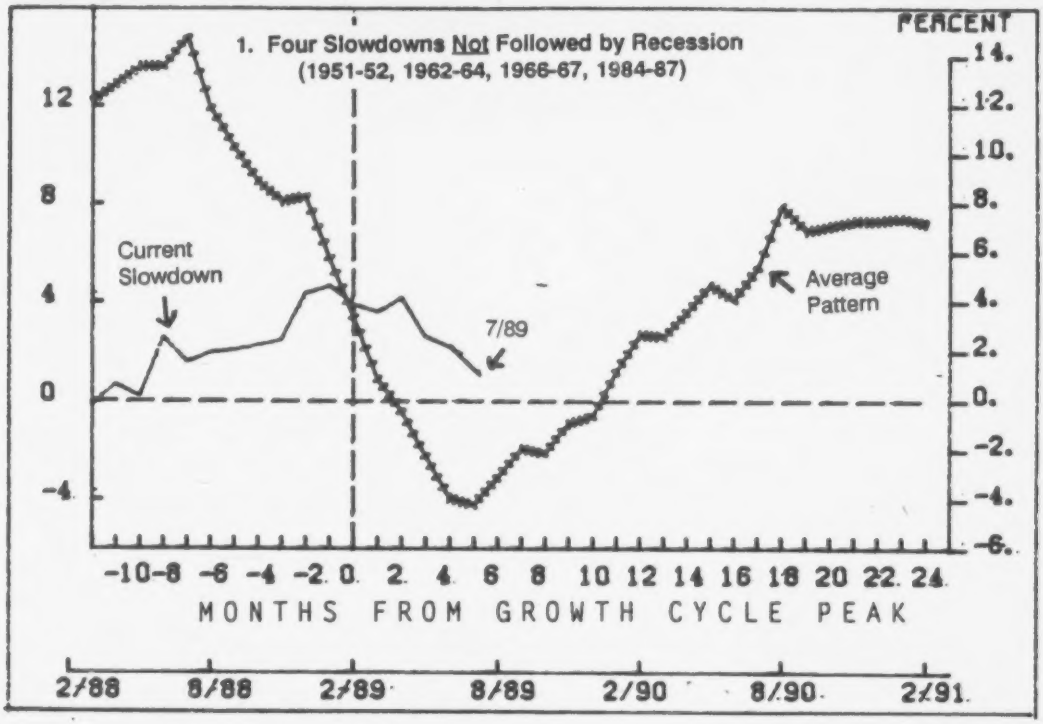
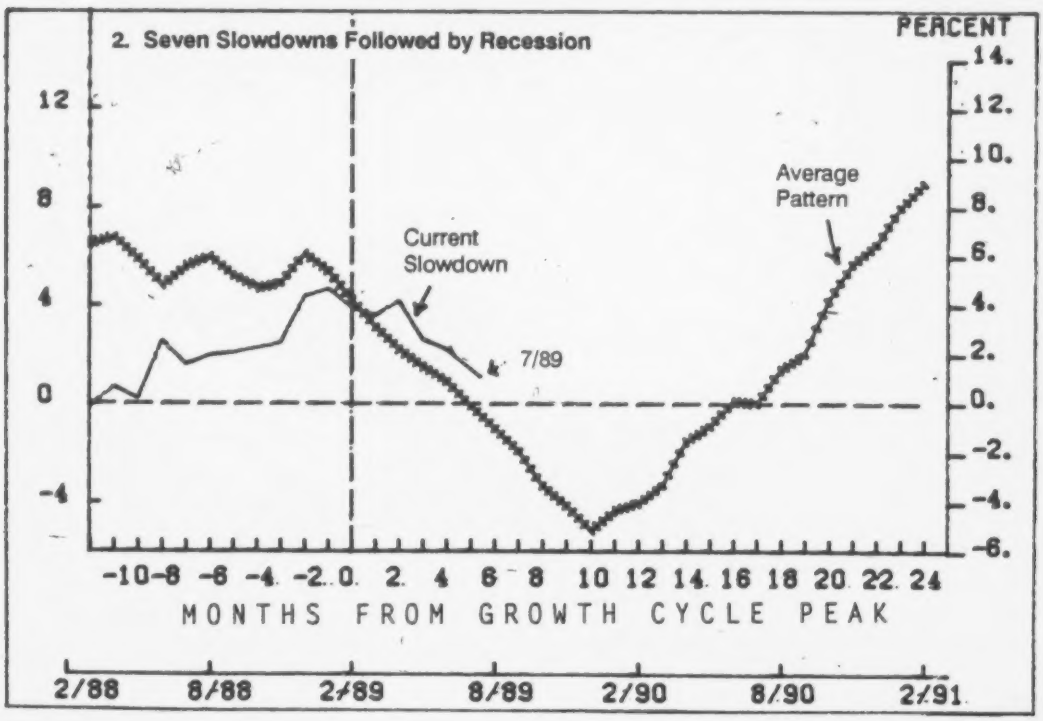
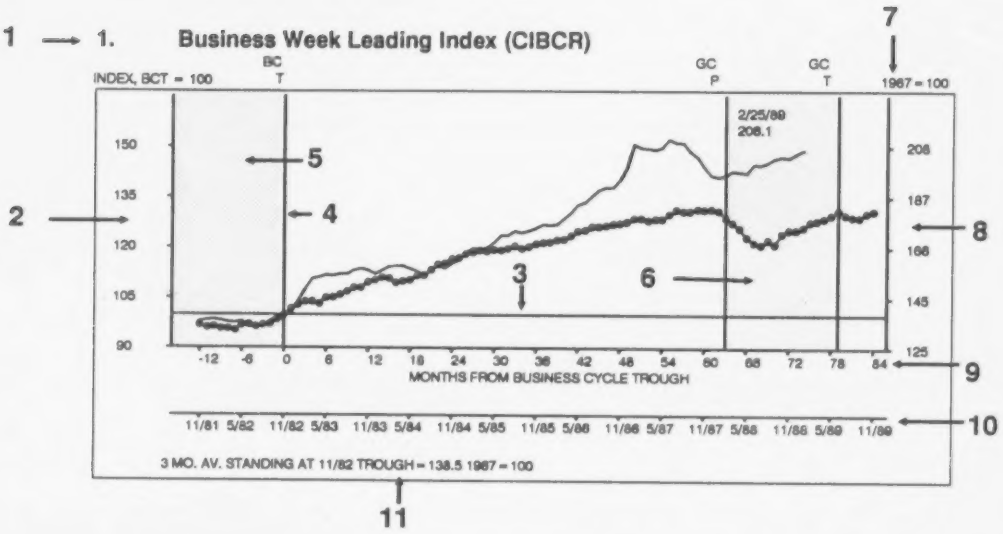


CHART C. SHORT-LEADING INDEX GROWTH RATES BEFORE AND AFTER GROWTH CYCLE PEAKS





HOW TO READ ACTUAL LEVEL CHARTS



1 CHART NUMBER AND TITLE: If the title does not say "growth rate," then the chart is for the actual level rather than for the growth rate.

2 LEFT-HAND SCALE measures movements in both current and past expansion, as a percentage of business cycle trough standings. This is the common vertical scale along which the expansions are compared.

3 HORIZONTAL LINE shows levels at reference trough (100) for current and past expansions.

4 VERTICAL LINE represents reference trough dates for current and past expansion, which are all aligned so that the business cycle trough (BCT) dates are positioned on the vertical line; i.e., the past expansion is aligned with the current trough to facilitate comparison.

5 LEFT SHADED AREA represents a recessionary period.

6 RIGHT SHADED AREA, between the growth cycle peak (GCP) and growth cycle trough (GCT) represents the 1966-67 growth recession.

7 UNITS for right-hand scale refer only to the current expansion.

8 RIGHT-HAND SCALE refers only to the current expansion. It is a transformation of the left-hand scale to show the current expansion in original units rather than with trough standing at 100.

9 HORIZONTAL SCALE measures months from business cycle trough (BCT) for both the current and past expansions. This is the common time scale along which the expansions are compared.

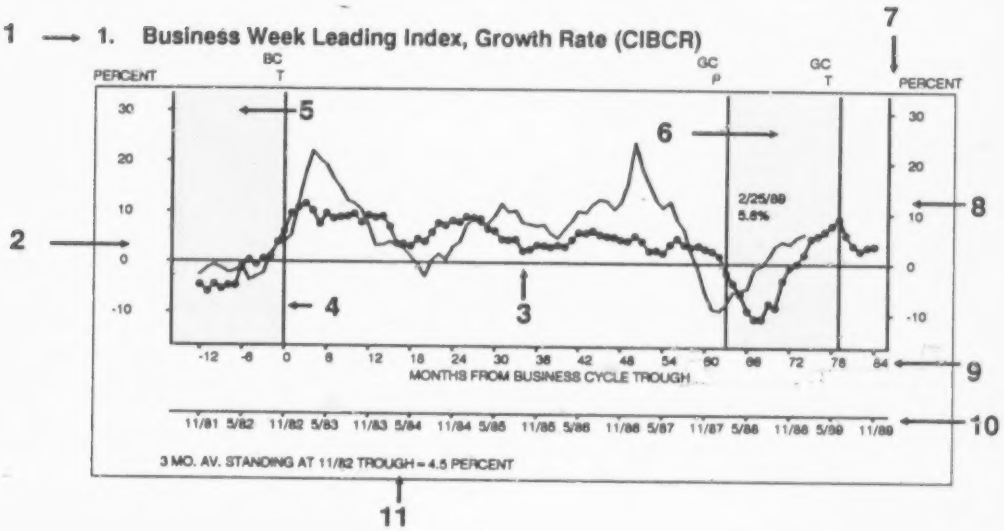
10 ACTUAL DATES refer only to the current expansion.

11 STANDING AT THE TROUGH is the level at which the current expansion began, and is calculated as the 3-month average centered on the trough month.

oooooooooooo LINE WITH CIRCLES indicates 1961–69 expansion.

———————— SOLID LINE indicates the current expansion, which began in November 1982, or Q4, 1982.

HOW TO READ GROWTH RATE CHARTS



1 CHART NUMBER AND TITLE: If the title says "growth rate," then the chart is for the 6-month smoothed growth rate, rather than the actual level. These growth rates are obtained by dividing the current month's figure by the average for the 12 preceding months, and expressing the result as a compound annual rate.

2 LEFT-HAND SCALE (same as the right-hand scale) shows growth rates in percent for both current and past expansions.

3 HORIZONTAL LINE is drawn at 0% growth rate, a natural reference level for both current and past expansions.

4 VERTICAL LINE represents reference trough dates for current and past expansions, which are aligned so that the business cycle trough (BCT) dates are positioned on the vertical line; i.e., the trough of the past expansion is aligned with the current trough to facilitate comparison.

5 LEFT SHADED AREA represents a recessionary period.

6 RIGHT SHADED AREA, between the growth cycle peak (GCP) and growth cycle trough (GCT), represents the 1966-67 growth recession.

7 UNITS for both scales in percent refer to growth rates for both current and past expansions.

8 RIGHT-HAND SCALE (same as left-hand scale) shows growth rates in percent for both current and past expansions.

9 HORIZONTAL SCALE measures months from business cycle trough (BCT) for both current and past expansions. This is the common time scale along which the expansions are compared.

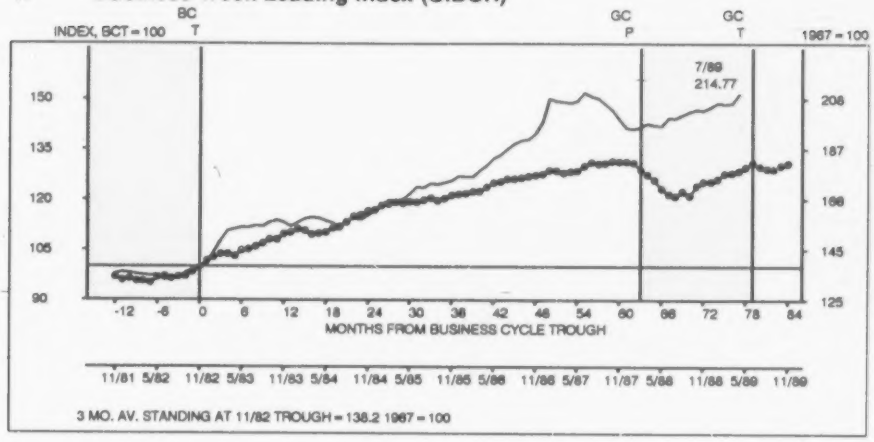
10 ACTUAL DATES refer only to the current expansion.

11 STANDING AT THE TROUGH is the growth rate at the time the current expansion began, and is calculated as the 3- month average centered on the trough month.

oooooooooooo LINE WITH CIRCLES indicates 1961–69 expansion.

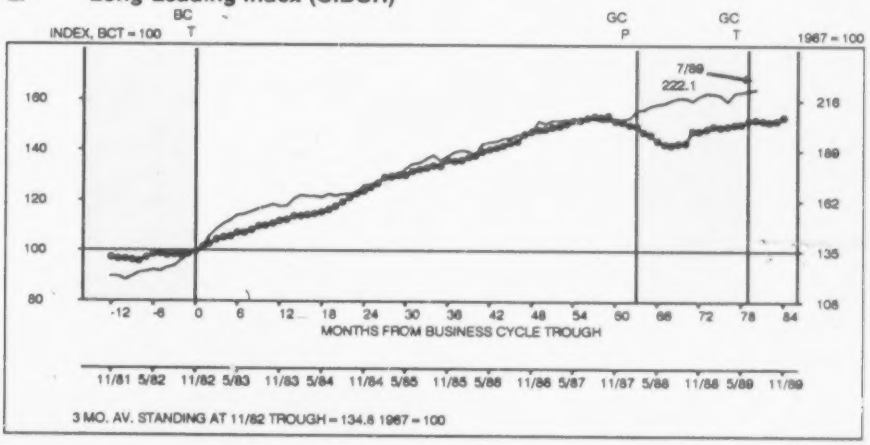
———————— SOLID LINE indicates the current expansion, which began in November 1982, or Q4 1982.

1. Business Week Leading Index (CIBCR)



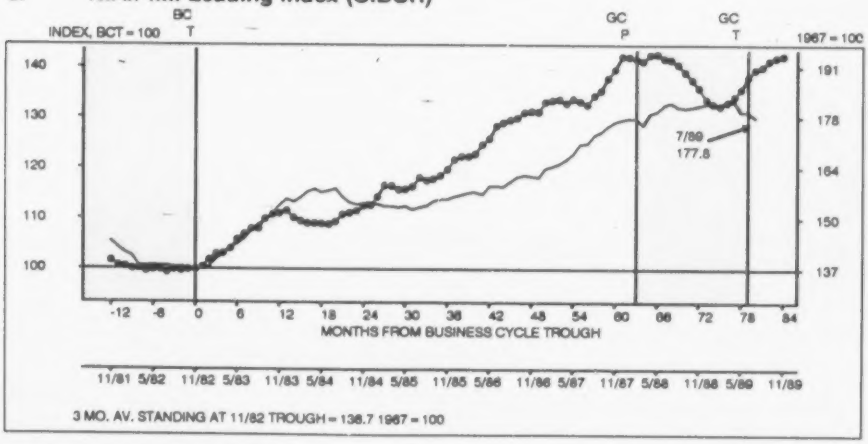
The August weekly figures have climbed above July.

2. Long-Leading Index (CIBCR)



The long-leader continues its long expansion, and so does the economy.

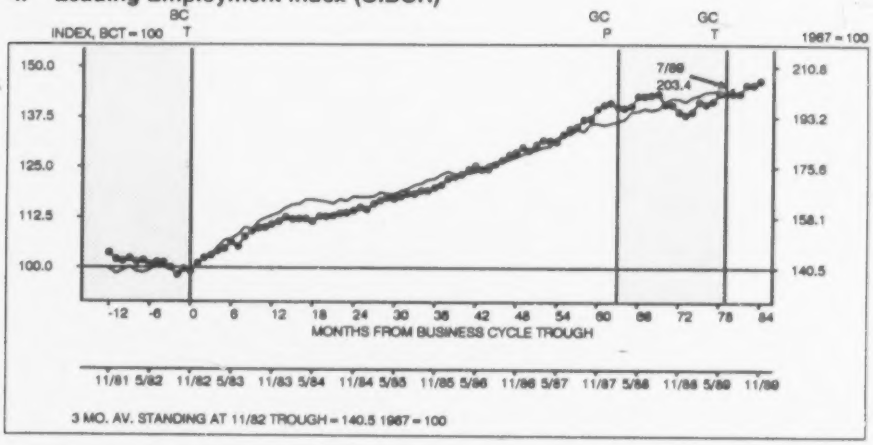
3. N.A.P.M. Leading Index (CIBCR)



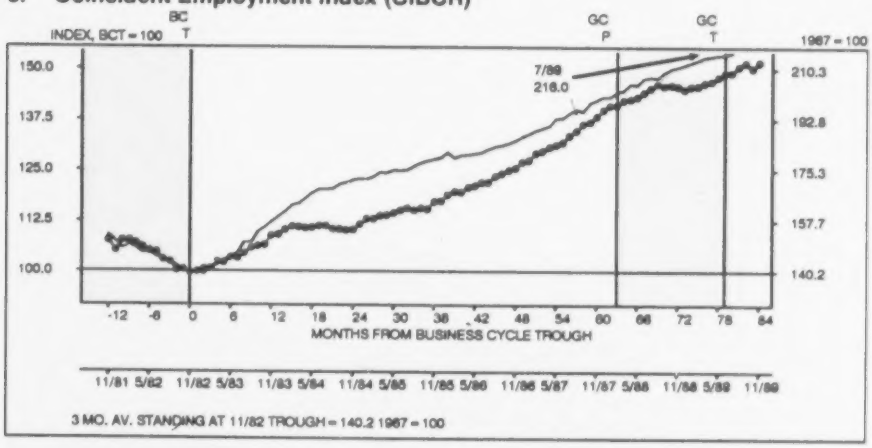
But the purchasing managers are less optimistic.

(August is even lower at 176.3)

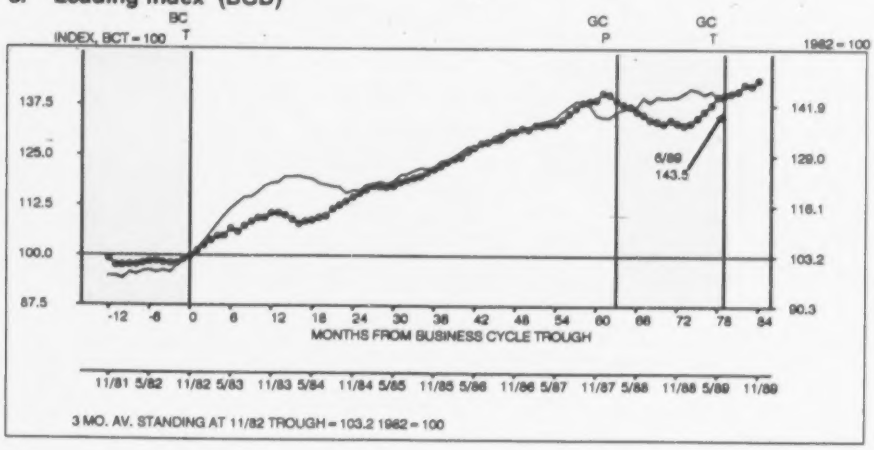
4. Leading Employment Index (CIBCR)



5. Coincident Employment Index (CIBCR)

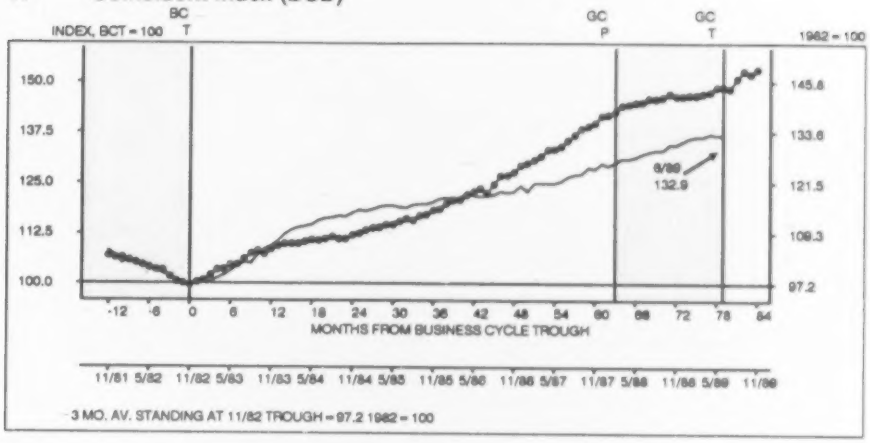


6. Leading Index (BCD)



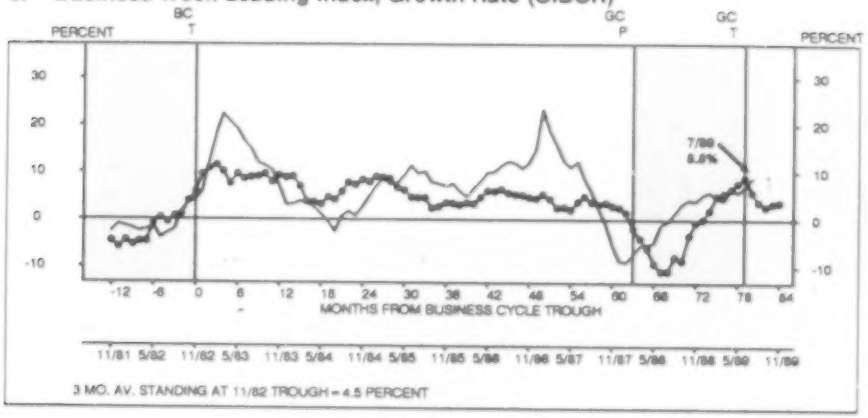
July is 144.0

7. Coincident Index (BCD)



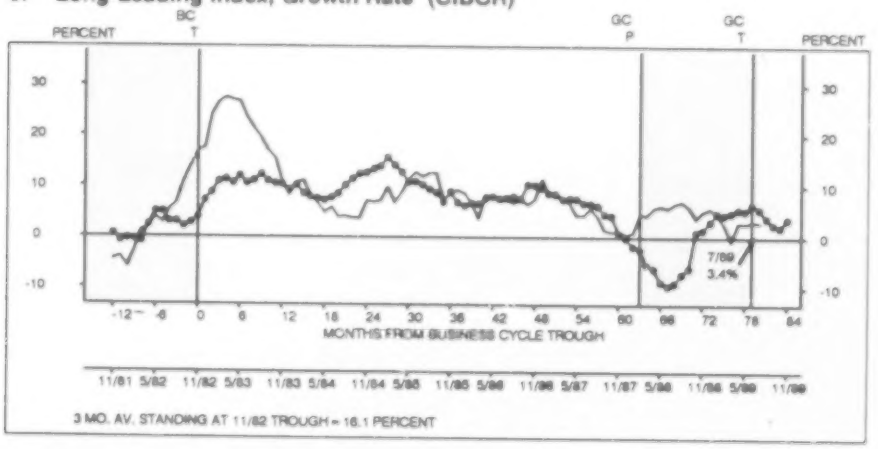
June was revised to 133.1, July is 133.7.

8. Business Week Leading Index, Growth Rate (CIBCR)



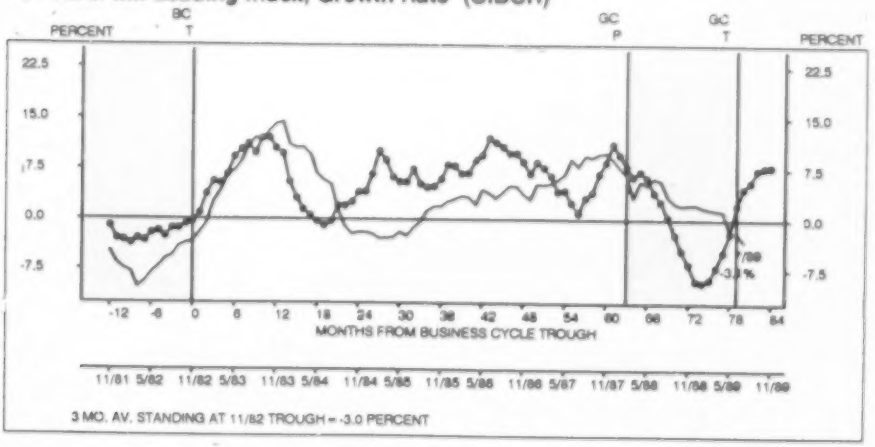
No slowdown.

9. Long-Leading Index, Growth Rate (CIBCR)



Some slowdown.

10. N.A.P.M. Leading Index, Growth Rate (CIBCR)



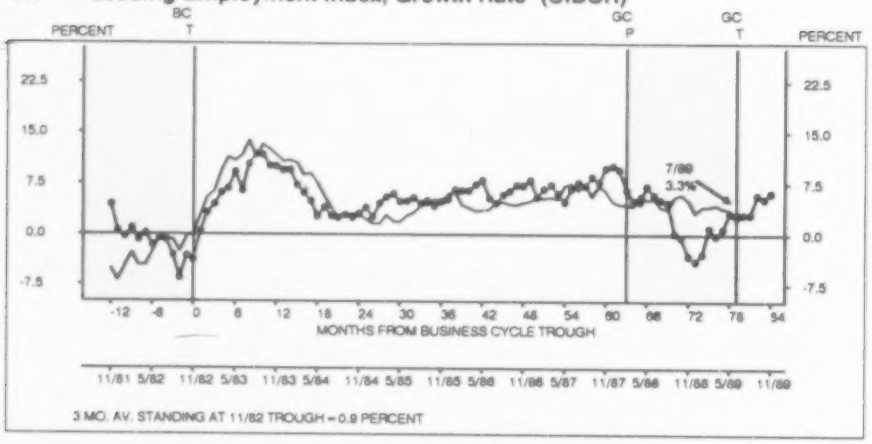
Slowdown

or

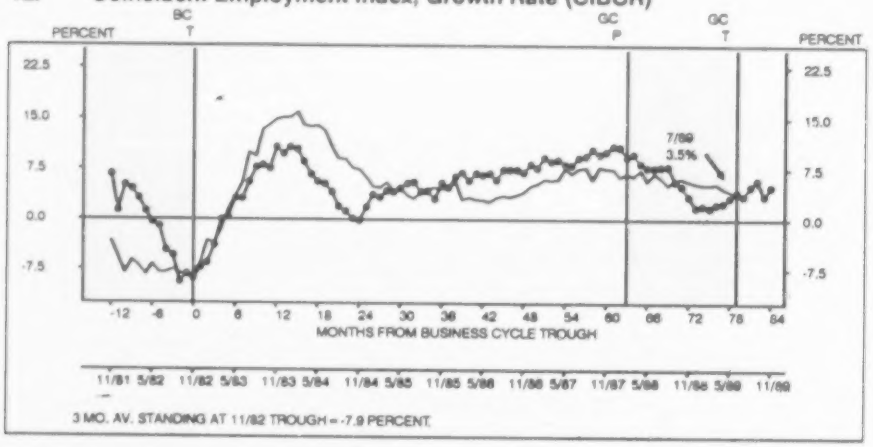
Recession –

The figure for August is -4.3.

11. Leading Employment Index, Growth Rate (CIBCR)

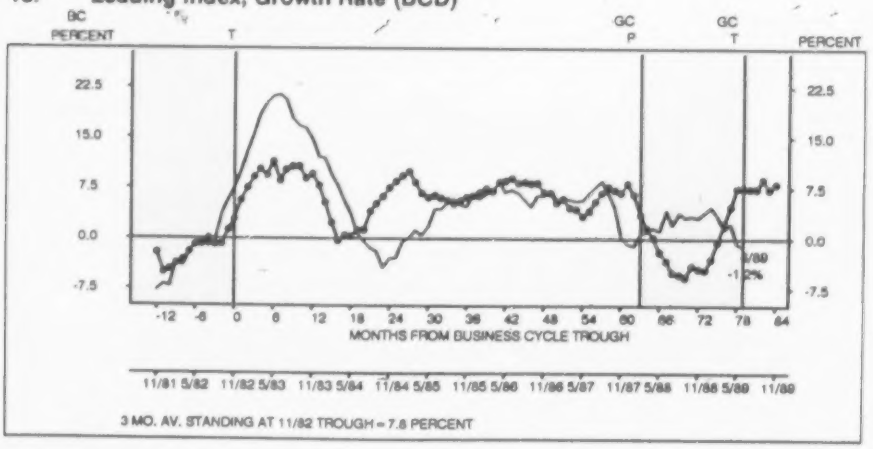


12. Coincident Employment Index, Growth Rate (CIBCR)



A modest slowdown.

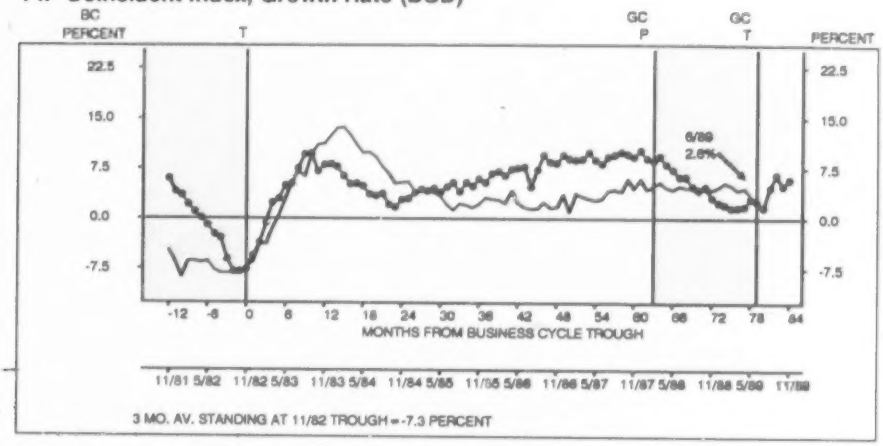
13. Leading Index, Growth Rate (BCD)



Not so modest.

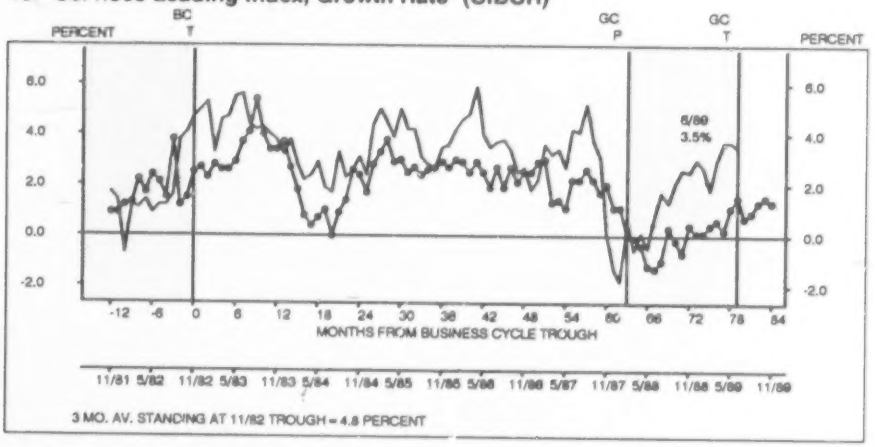
(although June was revised to -0.9 and July is -0.5.)

14. Coincident Index, Growth Rate (BCD)



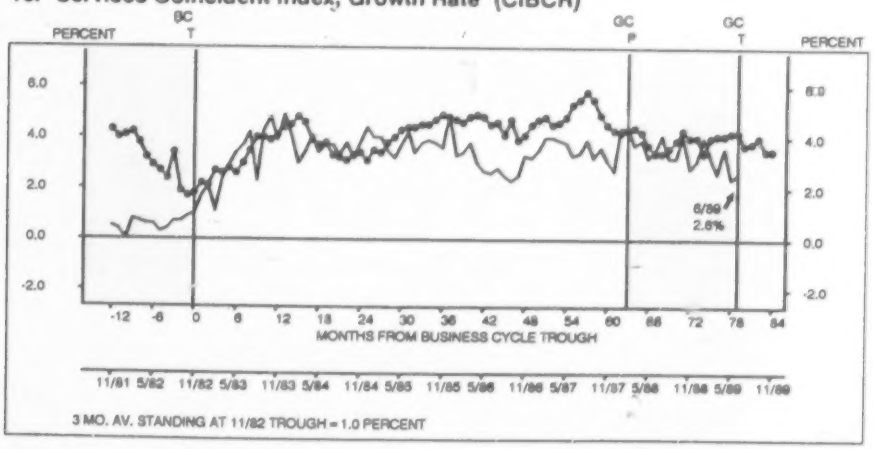
July is 3.2.

15. Services Leading Index, Growth Rate (CIBCR)



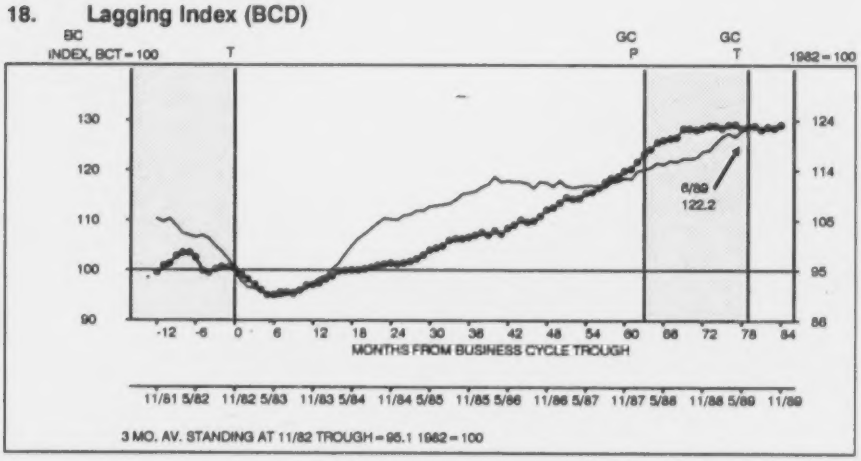
Here's why the slowdown may stay modest.

16. Services Coincident Index, Growth Rate (CIBCR)



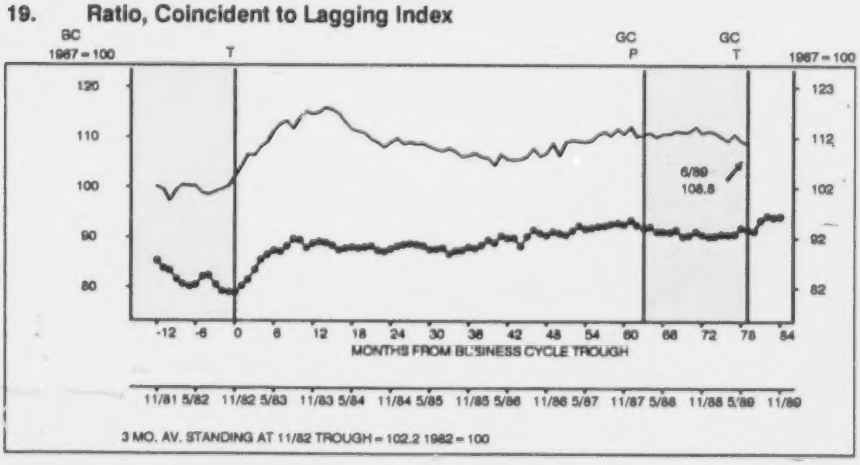
17. Diffusion Index of Leading Indicators (CIBCR)

18. Lagging Index (BCD)



July is 121.4.

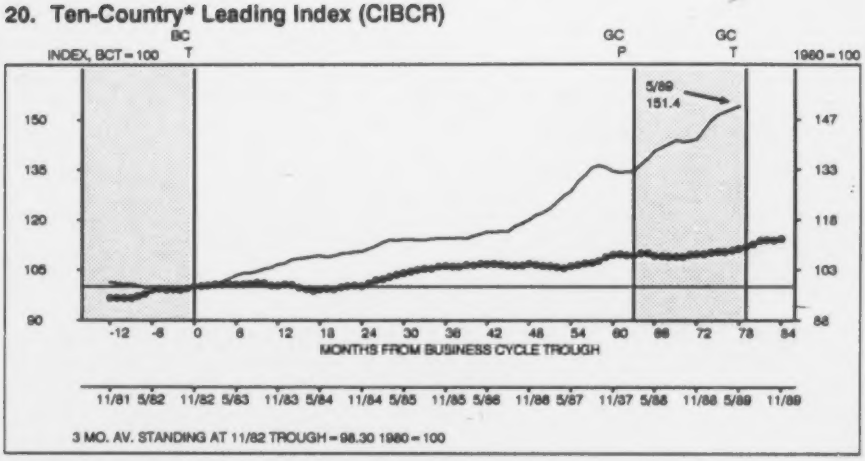
19. Ratio, Coincident to Lagging Index



Another sign of slowdown

although June was revised to 109.2, July is 110.1.

20. Ten-Country* Leading Index (CIBCR)

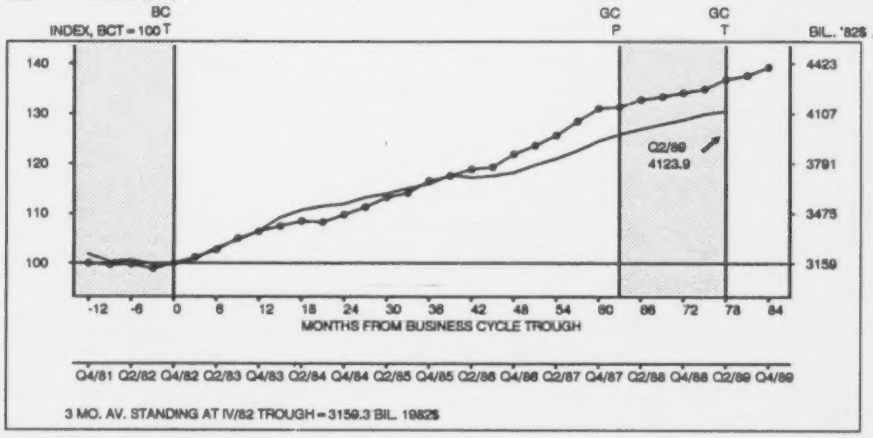


21. Ten-Country* Leading Index, Growth Rate (CIBCR)

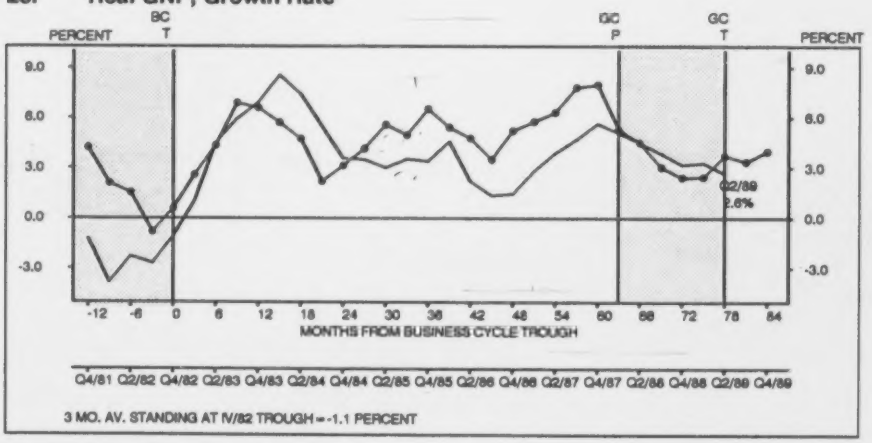
A healhty sign for U.S. Exports.

*Canada, United Kingdom, West Germany, France, Italy, Japan, Australia, Taiwan, R.O.C., Korea, R.O.K., and New Zealand.

22. Real GNP

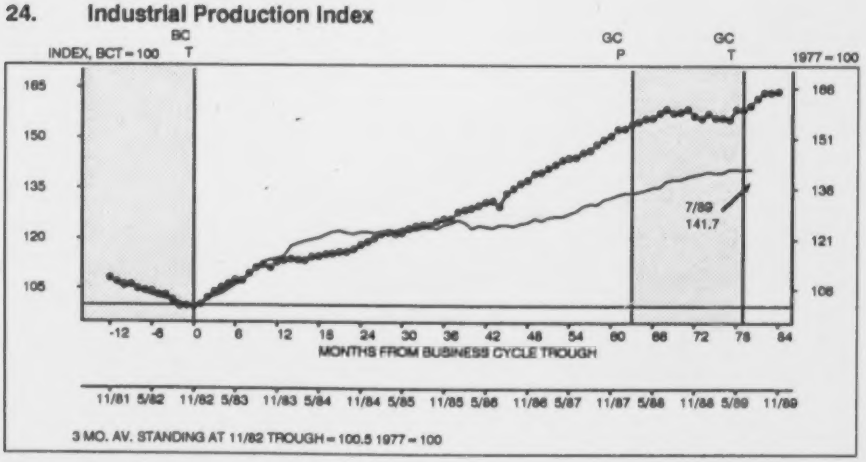


23. Real GNP, Growth Rate

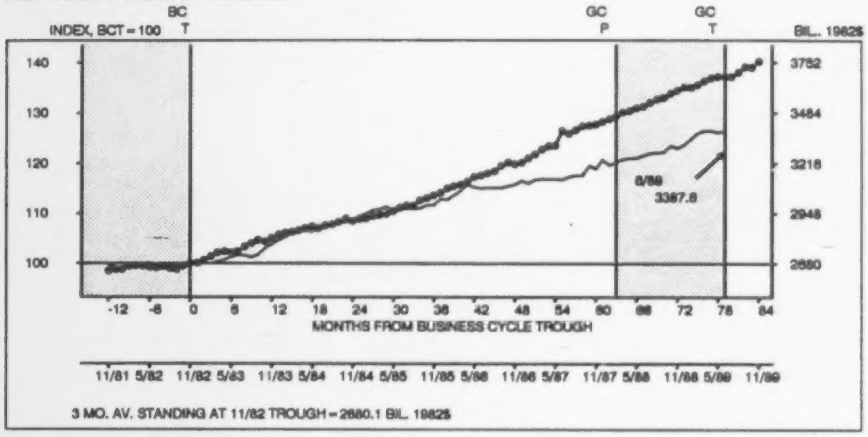


So far, the slowdown matches the 1966-67 one.

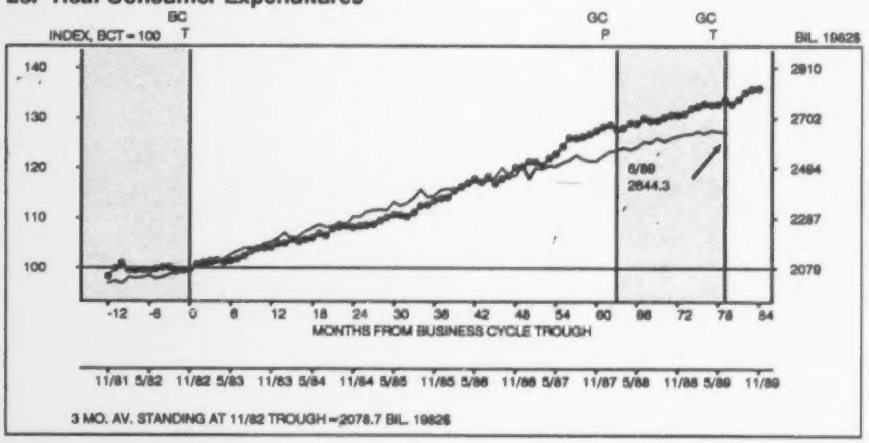
24. Industrial Production Index



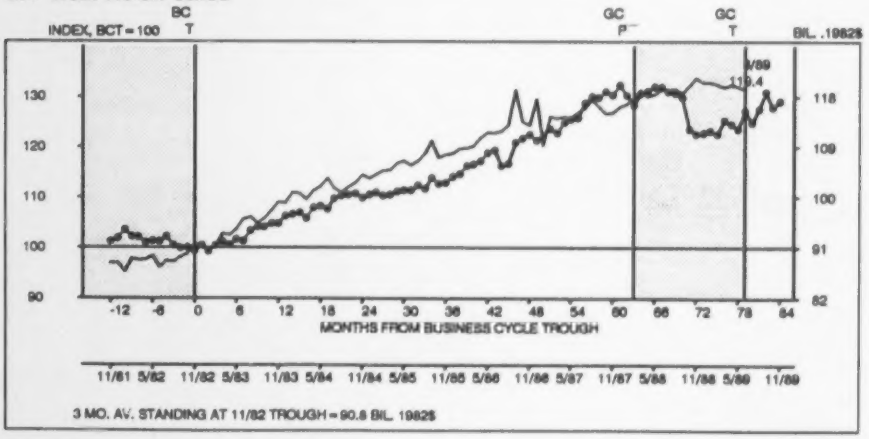
25. Real Personal Income



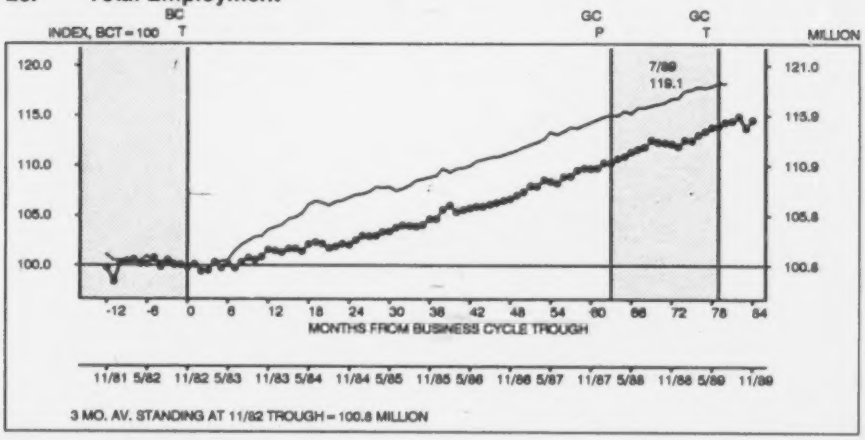
26. Real Consumer Expenditures



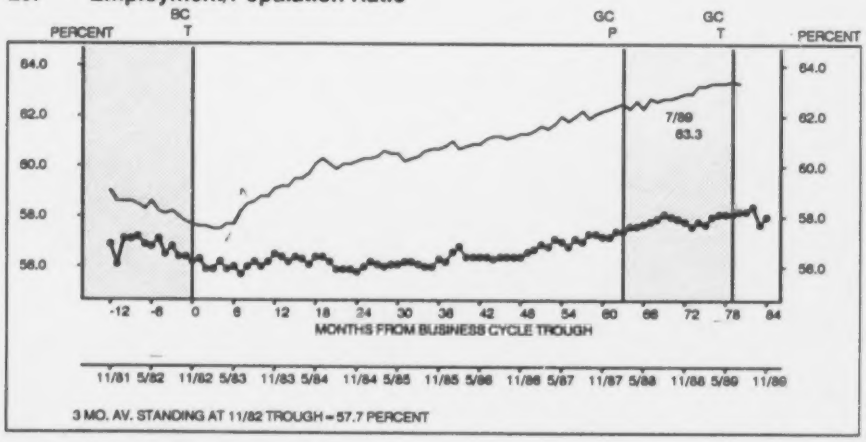
27. Real Retail Sales



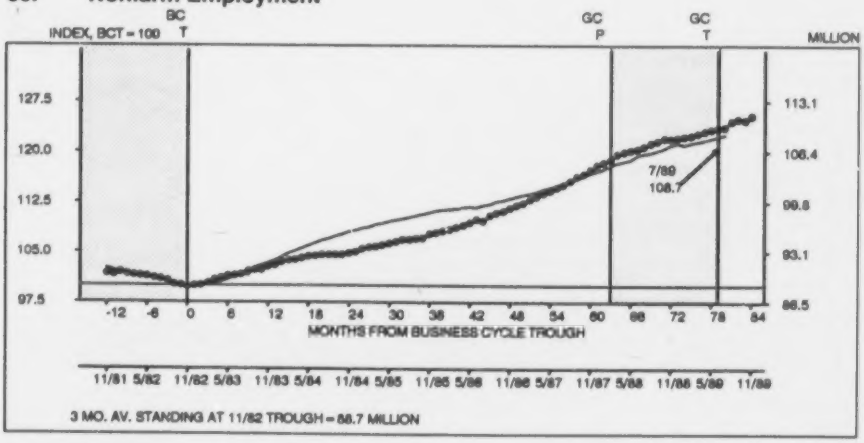
28. Total Employment



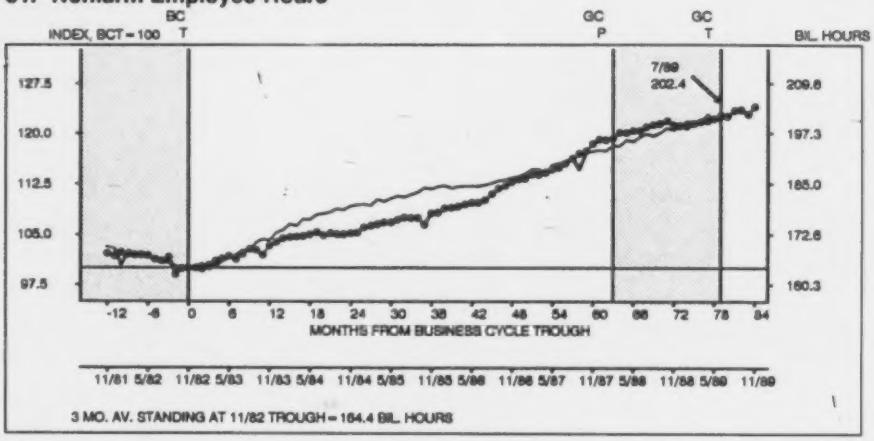
29. Employment/Population Ratio



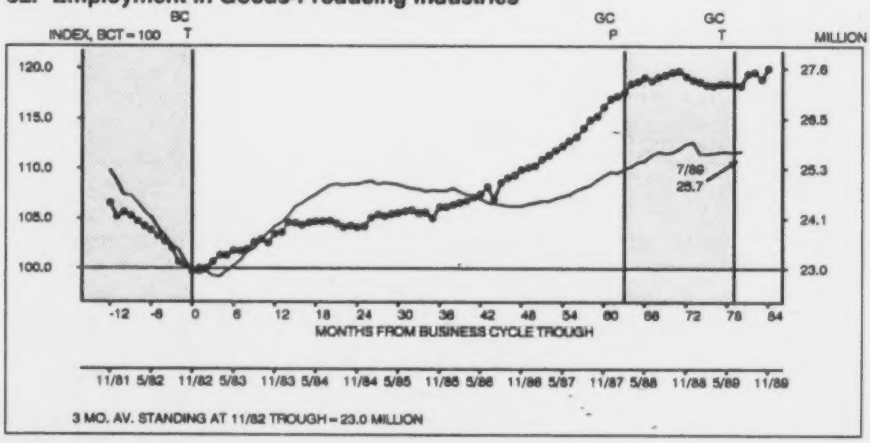
30. Nonfarm Employment



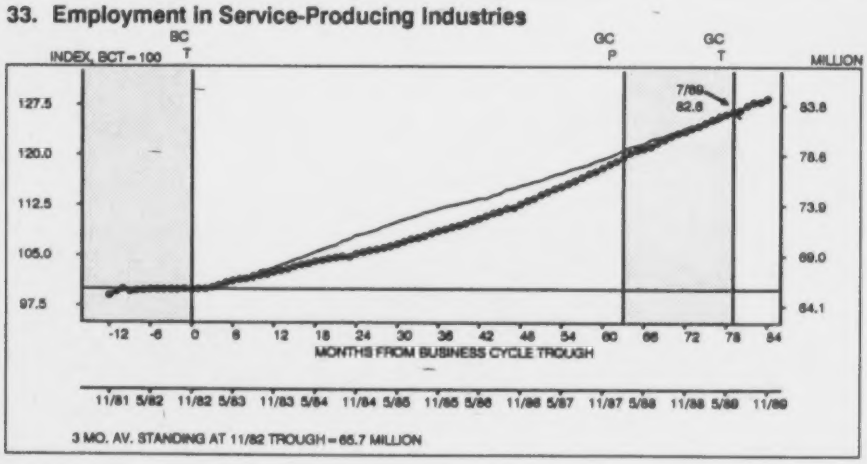
31. Nonfarm Employee-Hours



32. Employment in Goods-Producing Industries

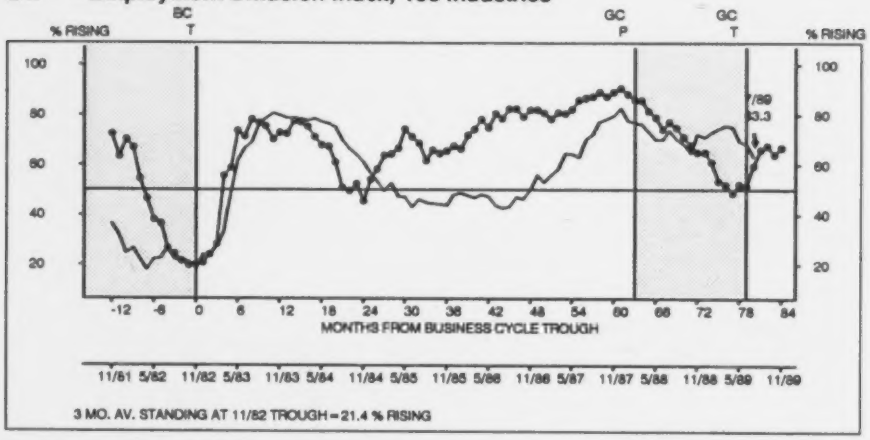


33. Employment in Service-Producing Industries

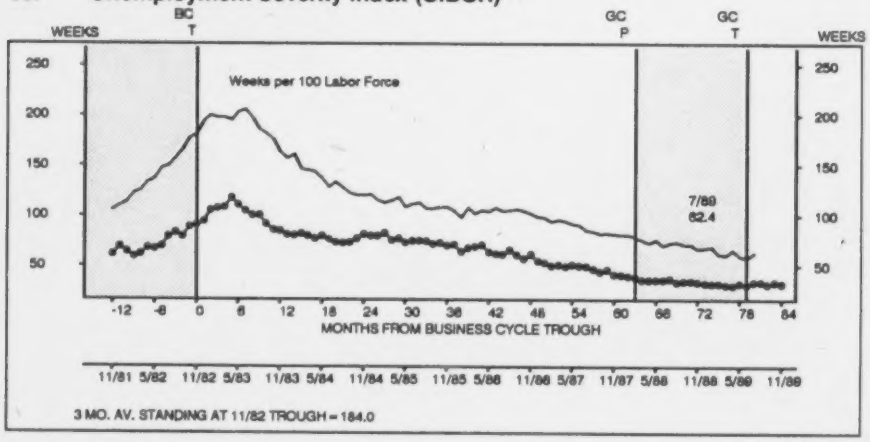


The slowdown is mainly in Goods rather than Services.

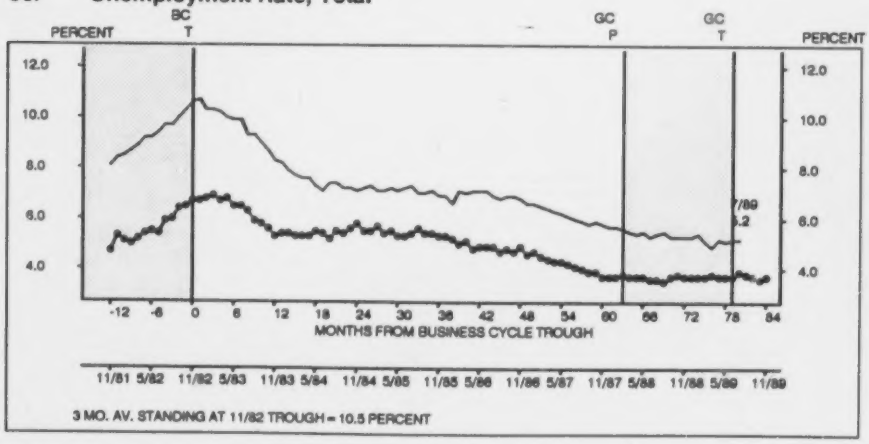
34. Employment Diffusion Index, 186 Industries



35. Unemployment Severity Index (CIBCR)

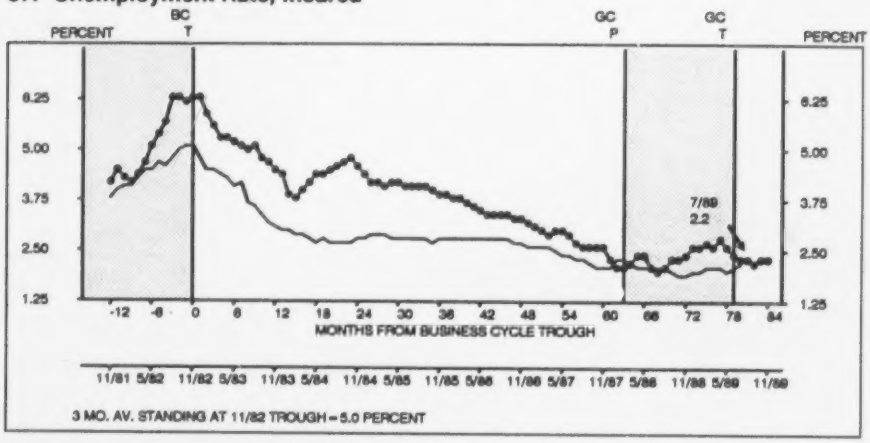


36. Unemployment Rate, Total

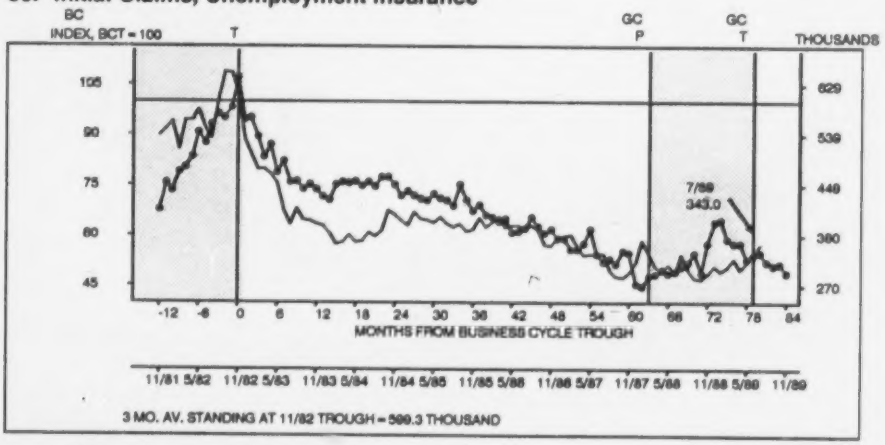


The 1966-67 slowdown stopped the decline in unemployment. The 1989 slowdown is having a similar effect.

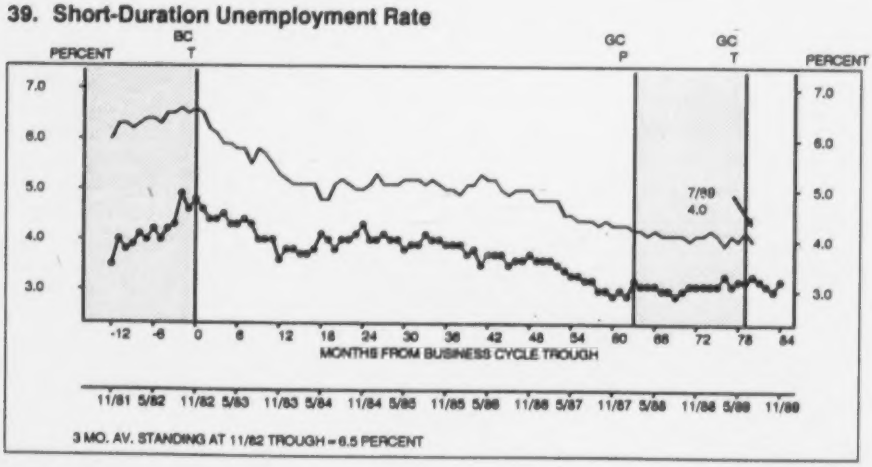
37. Unemployment Rate, Insured



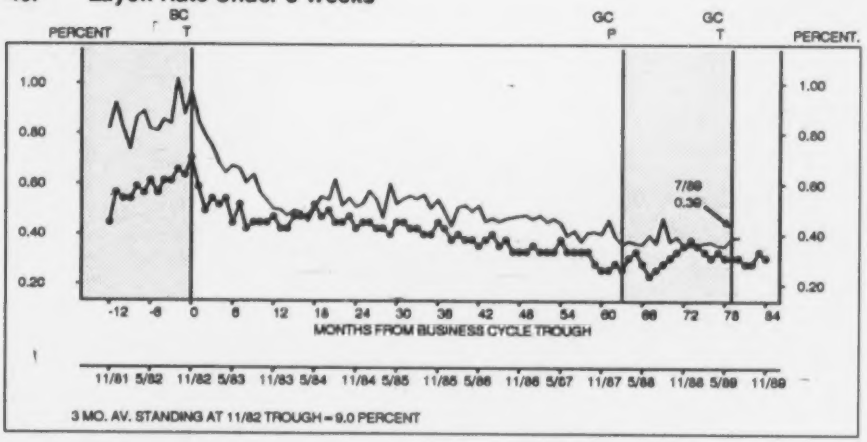
38. Initial Claims, Unemployment Insurance



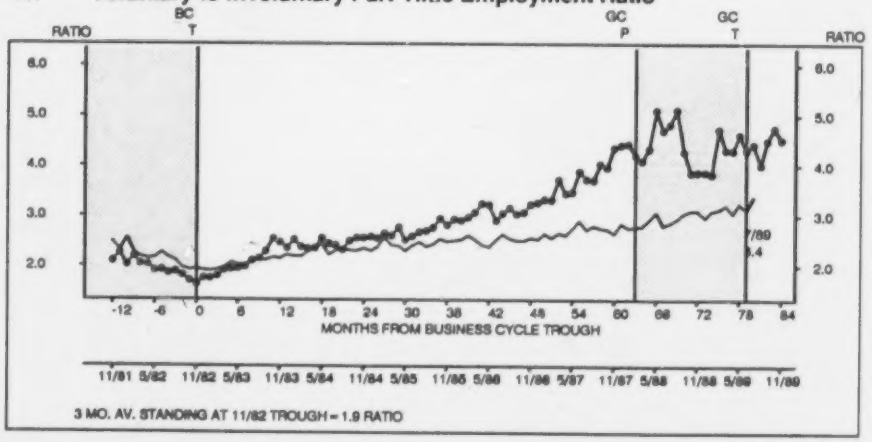
39. Short-Duration Unemployment Rate



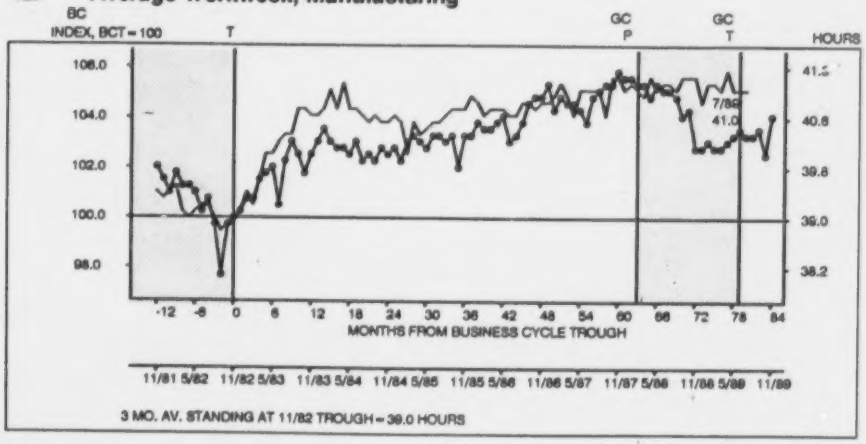
40. Layoff Rate Under 5 Weeks



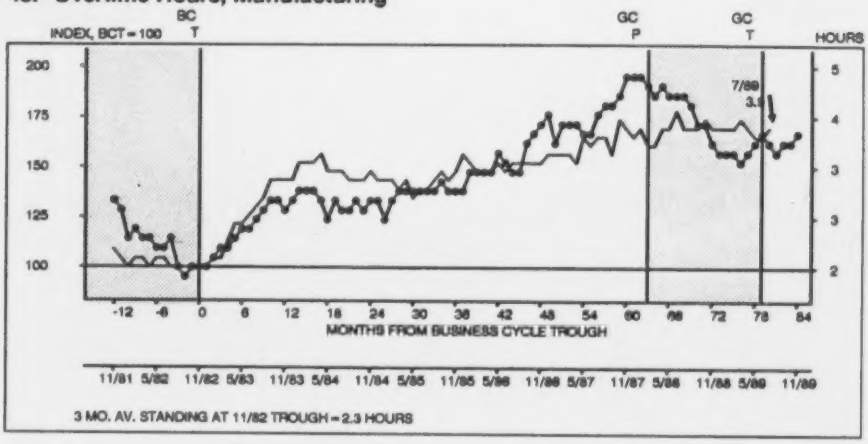
41. Voluntary to Involuntary Part-Time Employment Ratio



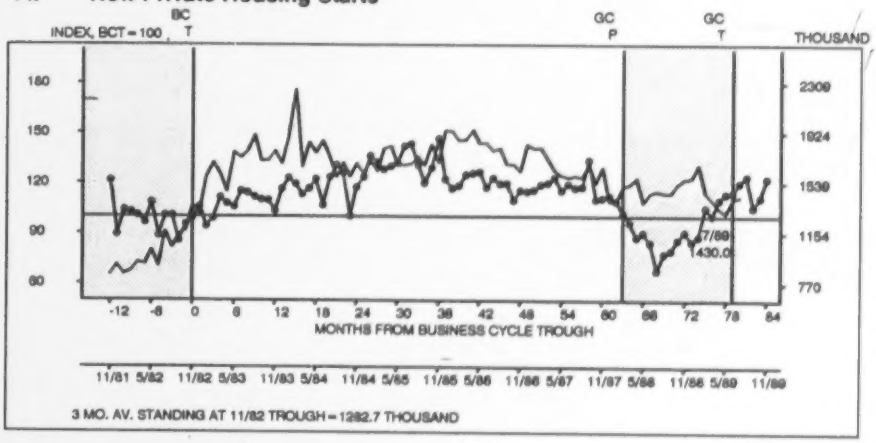
42. Average Workweek, Manufacturing



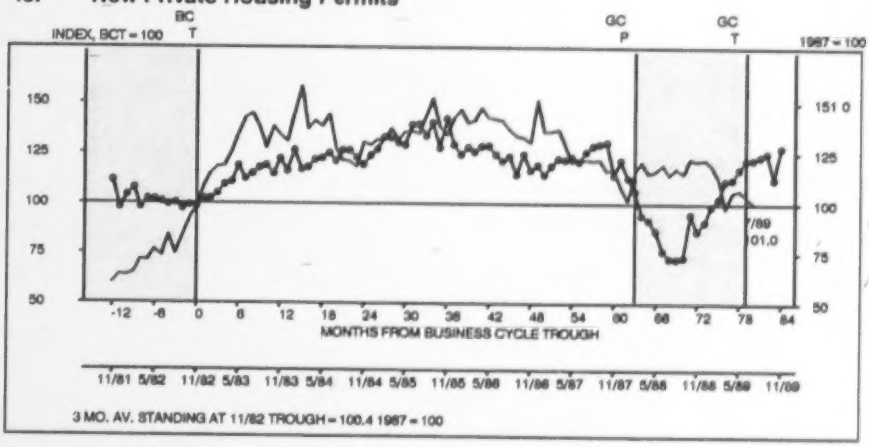
43. Overtime Hours, Manufacturing



44. New Private Housing Starts

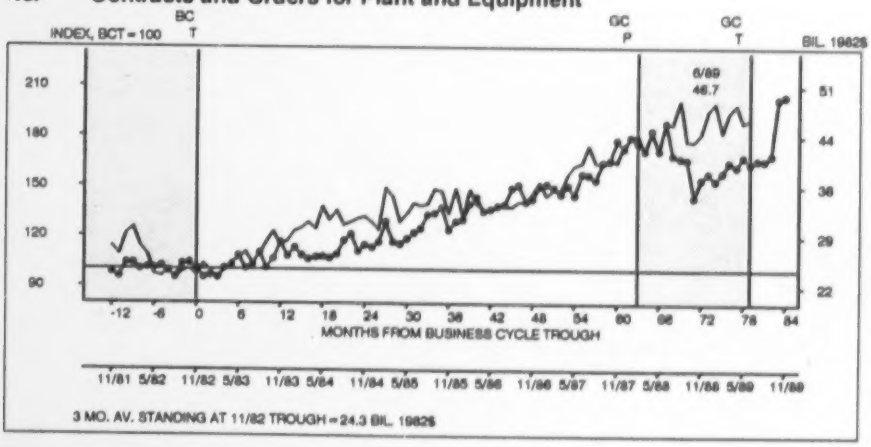


45. New Private Housing Permits



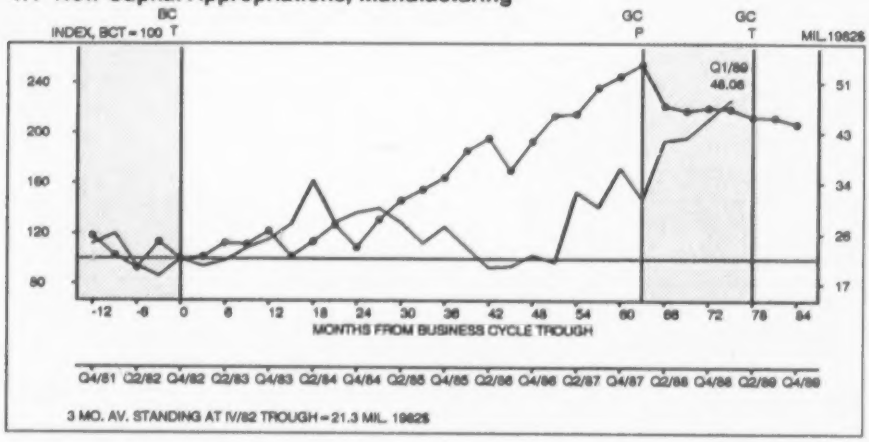
Investment in housing is sagging.

46. Contracts and Orders for Plant and Equipment

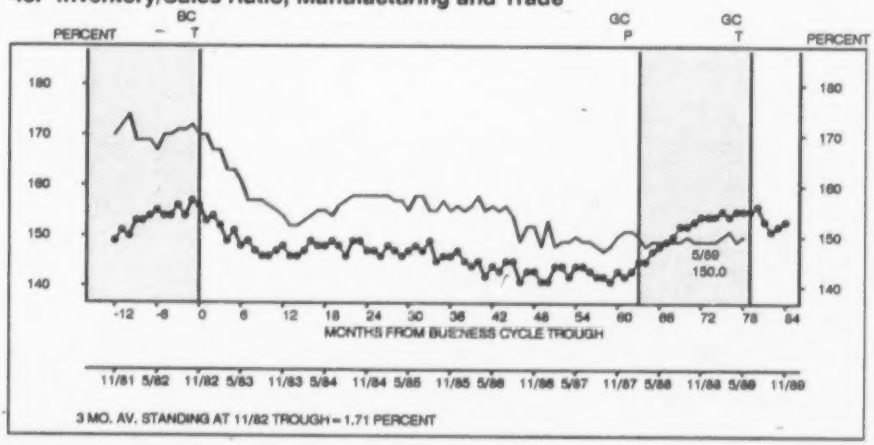


But business investment is holding up well.

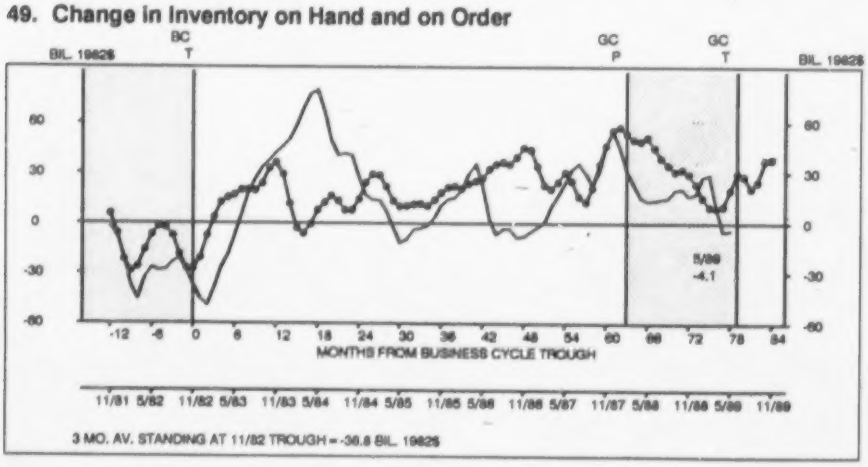
47. New Capital Appropriations, Manufacturing



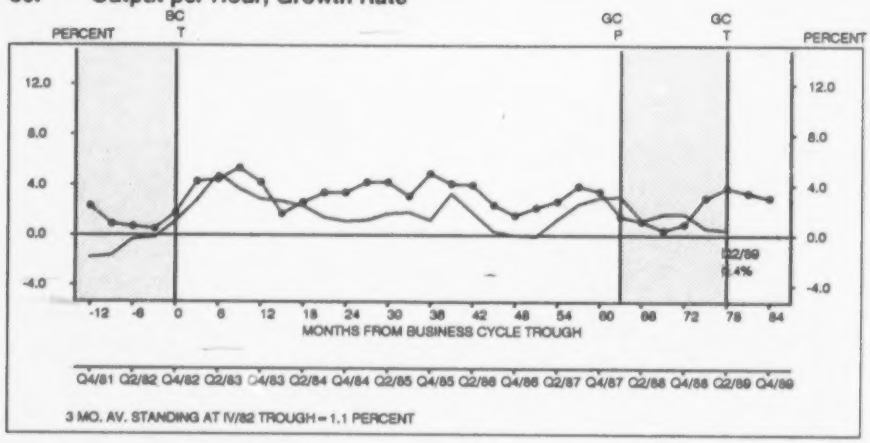
48. Inventory/Sales Ratio, Manufacturing and Trade



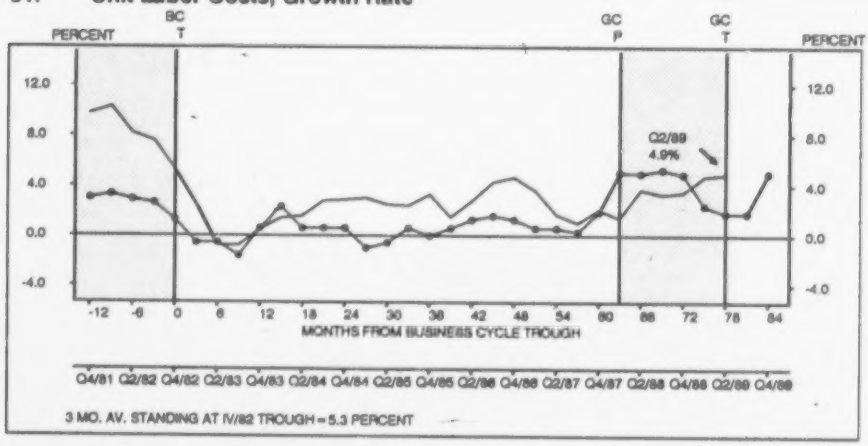
49. Change in Inventory on Hand and on Order



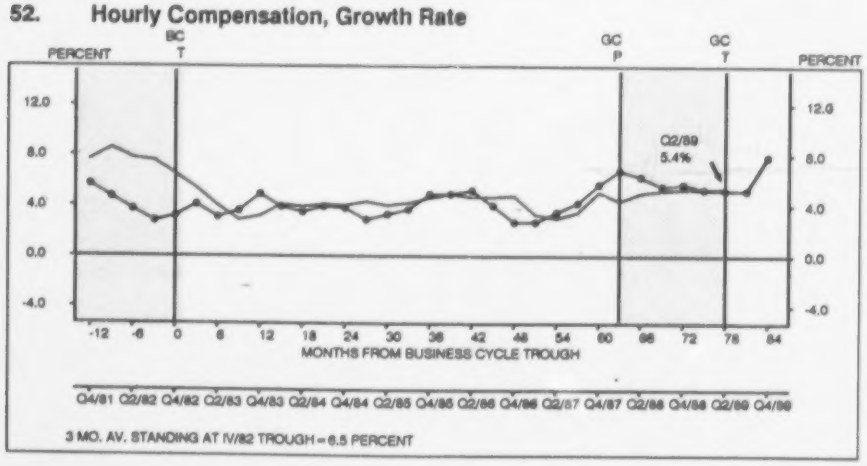
50. Output per Hour, Growth Rate



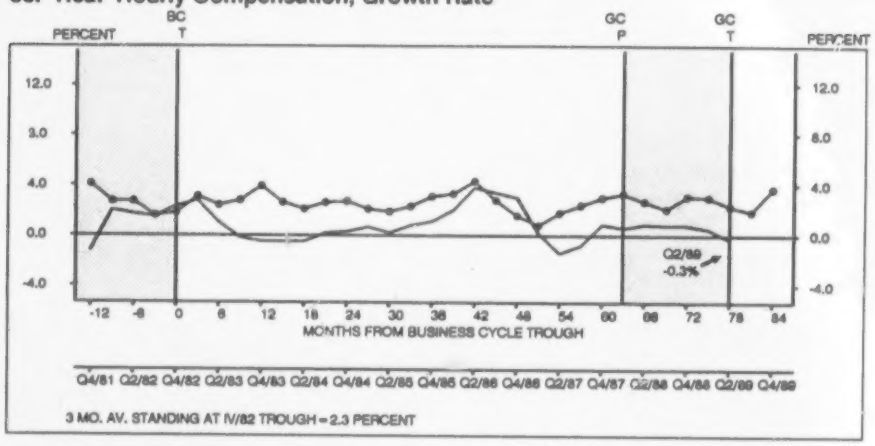
51. Unit Labor Costs, Growth Rate



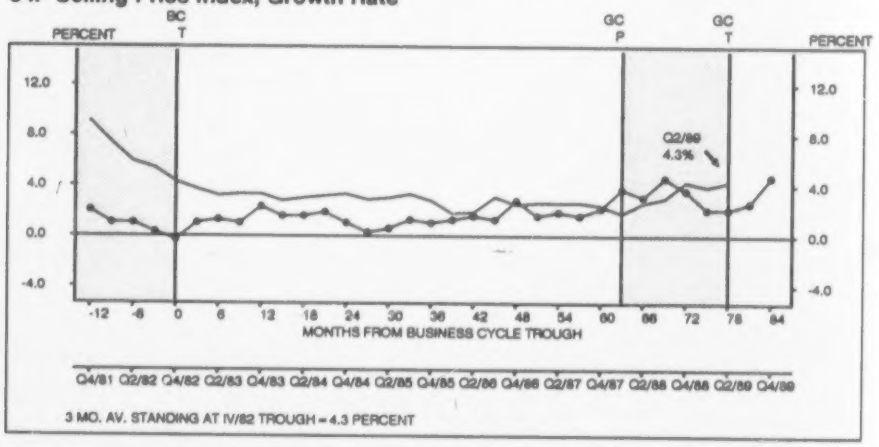
52. Hourly Compensation, Growth Rate



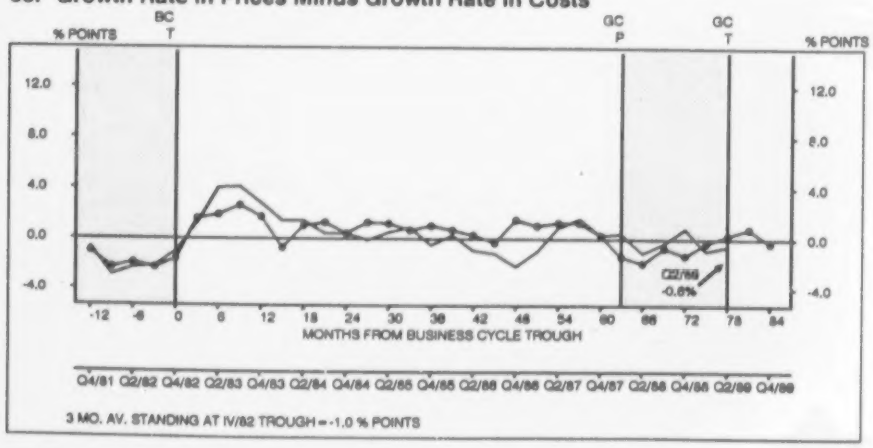
53. Real Hourly Compensation, Growth Rate



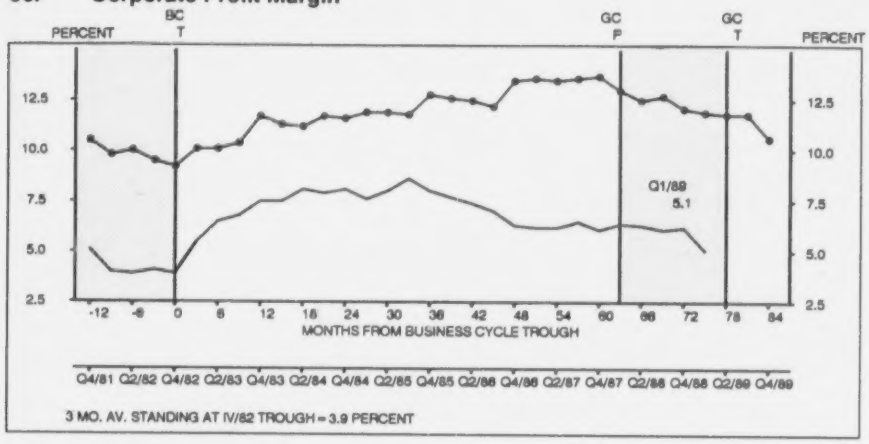
54. Selling Price Index, Growth Rate



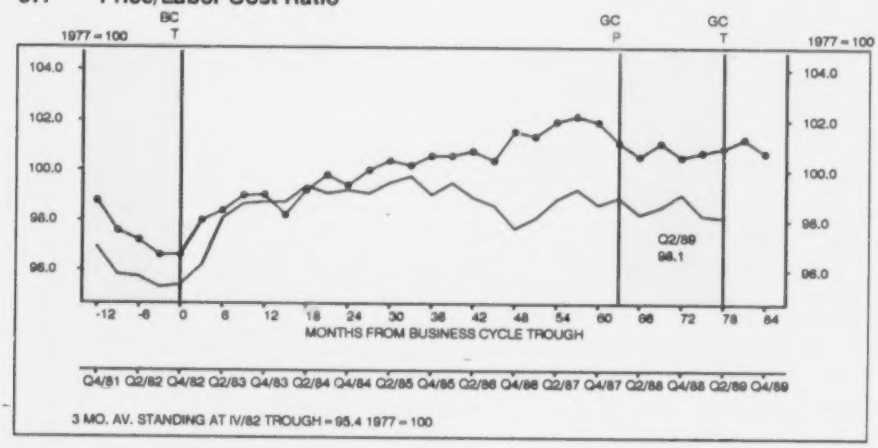
55. Growth Rate in Prices Minus Growth Rate in Costs



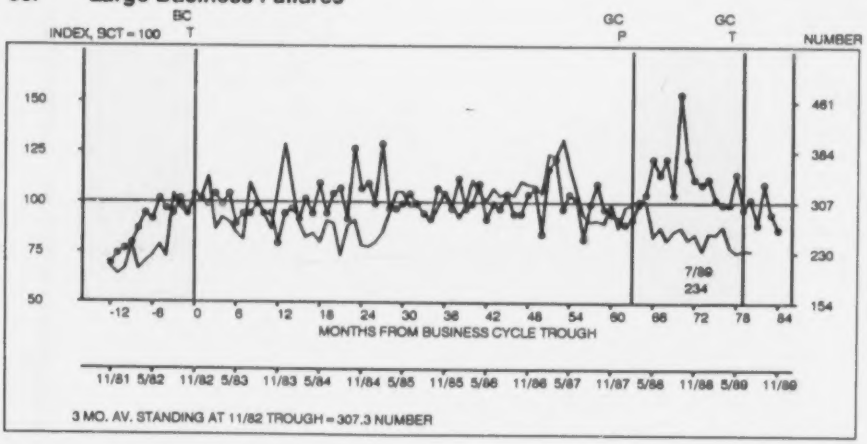
56. Corporate Profit Margin



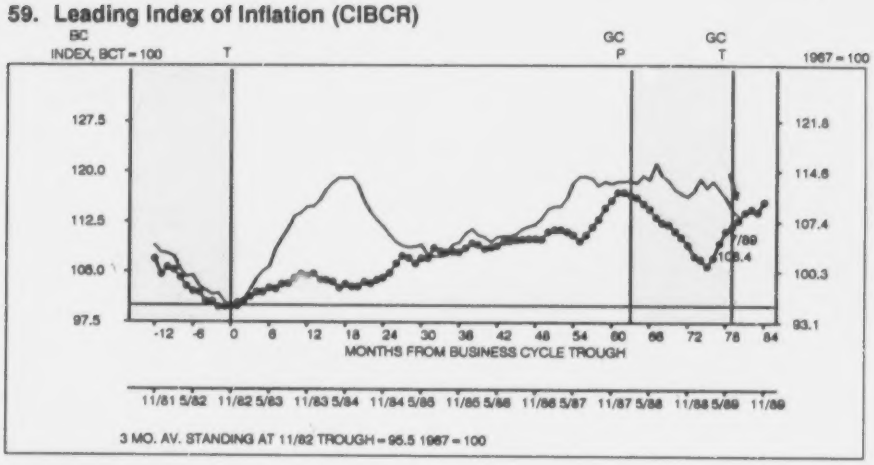
57. Price/Labor Cost Ratio



58. Large Business Failures

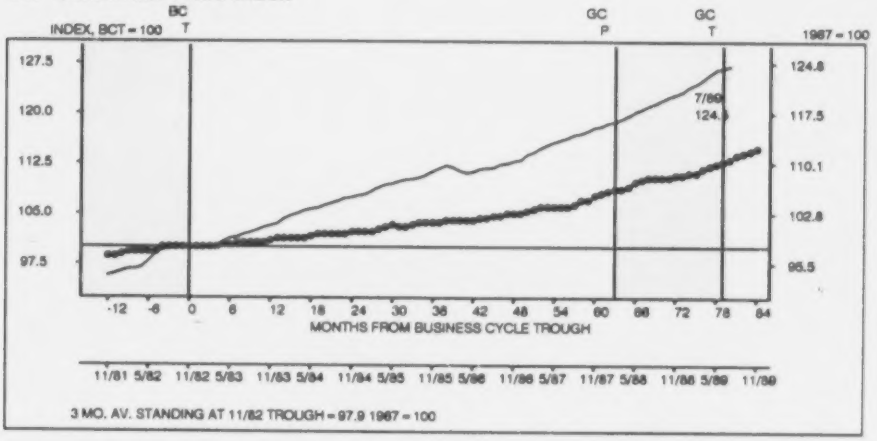


59. Leading Index of Inflation (CIBCR)

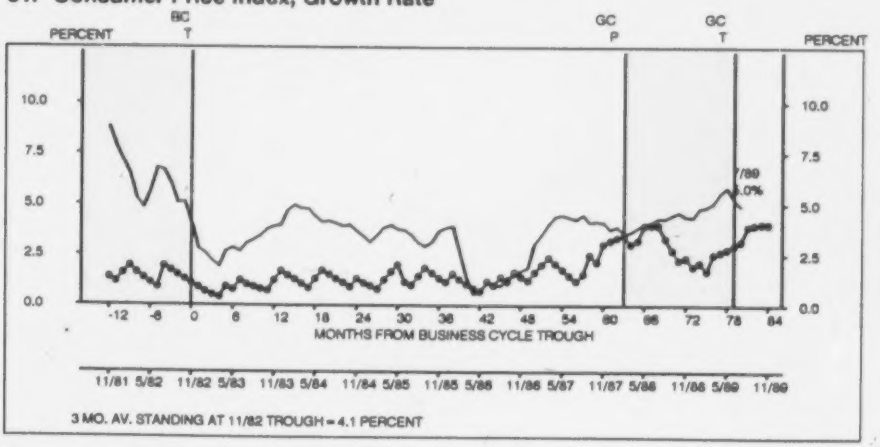


The Leading Inflation Index is down

60. Consumer Price Index

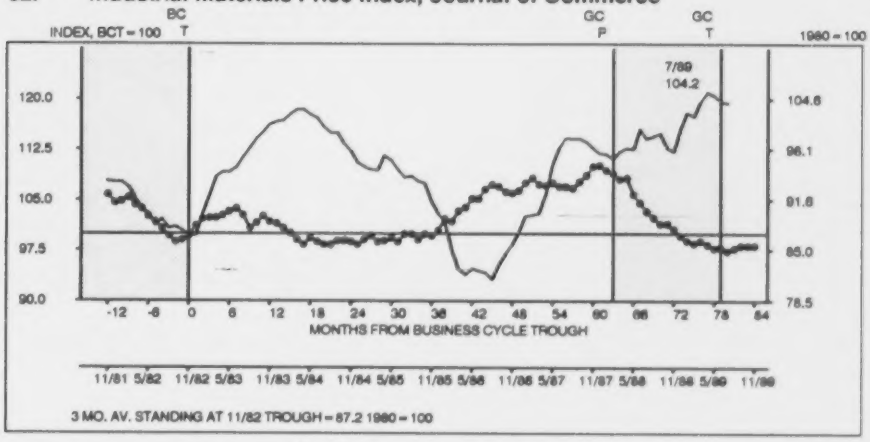


61. Consumer Price Index, Growth Rate

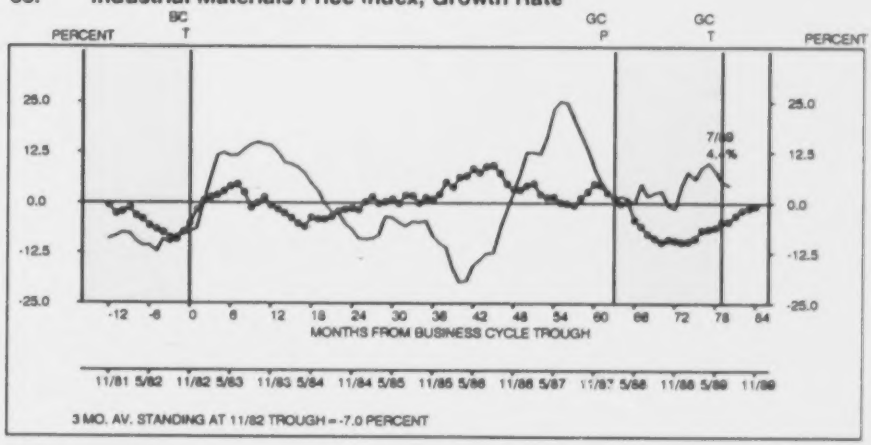


... and the inflation rate has started to dip.

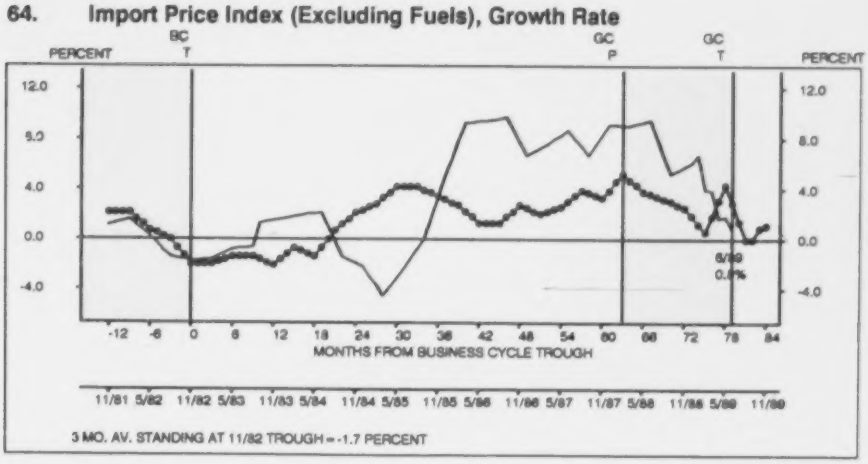
62. Industrial Materials Price Index, Journal of Commerce



63. Industrial Materials Price Index, Growth Rate

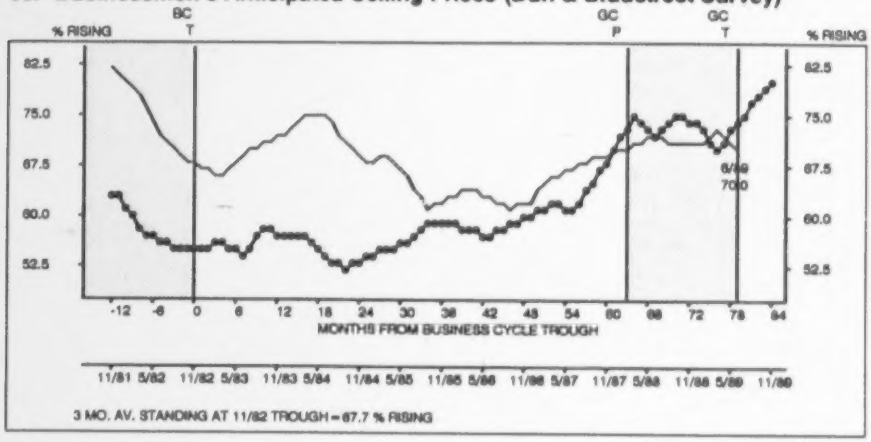


64. Import Price Index (Excluding Fuels), Growth Rate

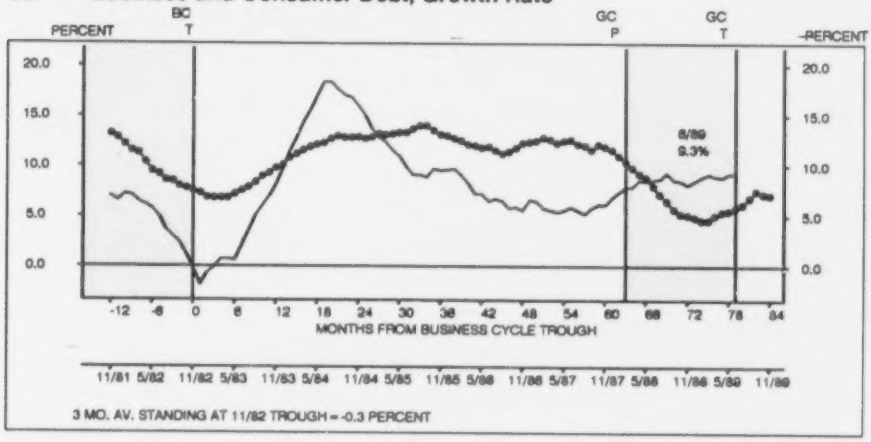


The drop in import price inflation is helping to keep U.S. inflation down.

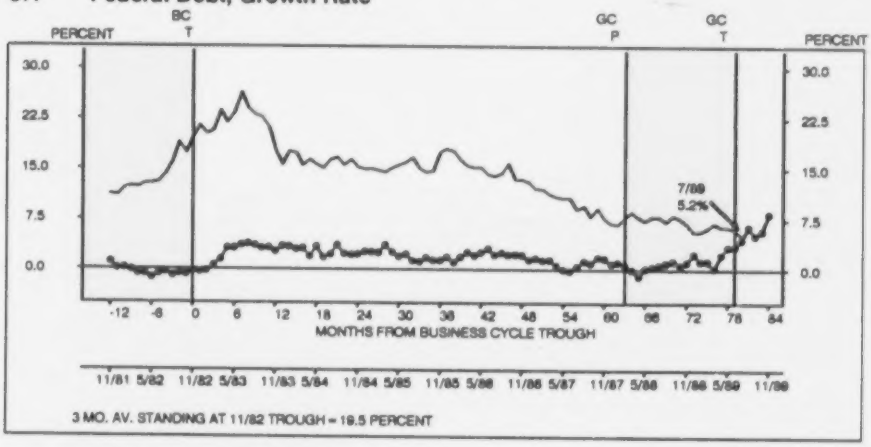
65. Businessmen's Anticipated Selling Prices (Dun & Bradstreet Survey)



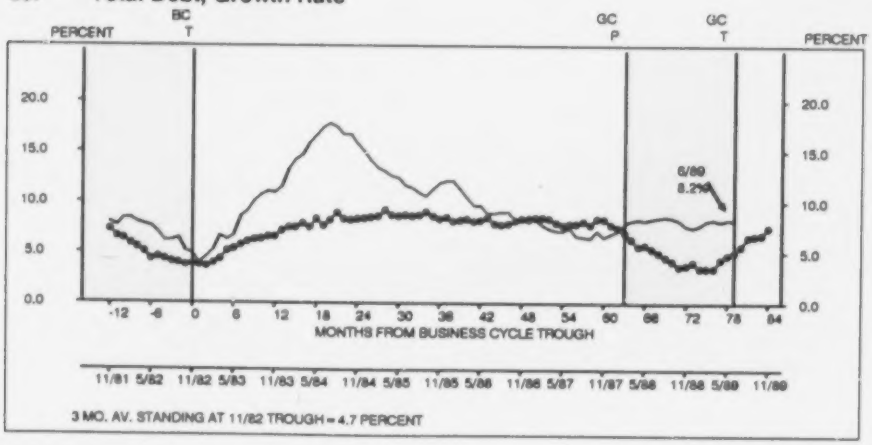
66. Business and Consumer Debt, Growth Rate



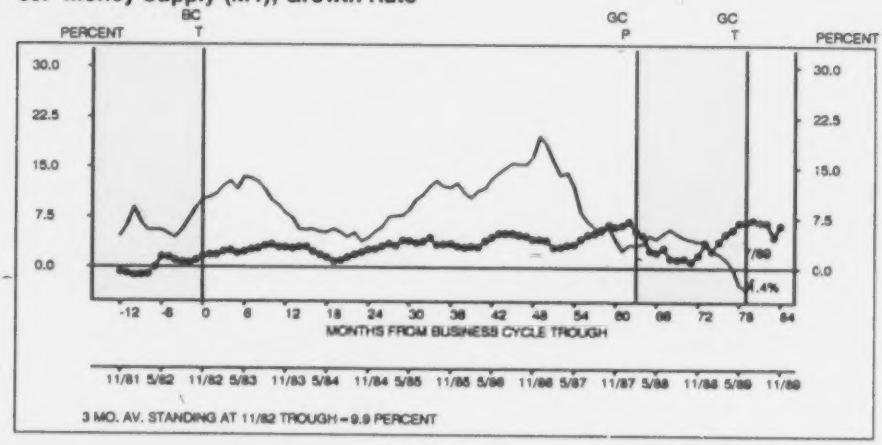
67. Federal Debt, Growth Rate



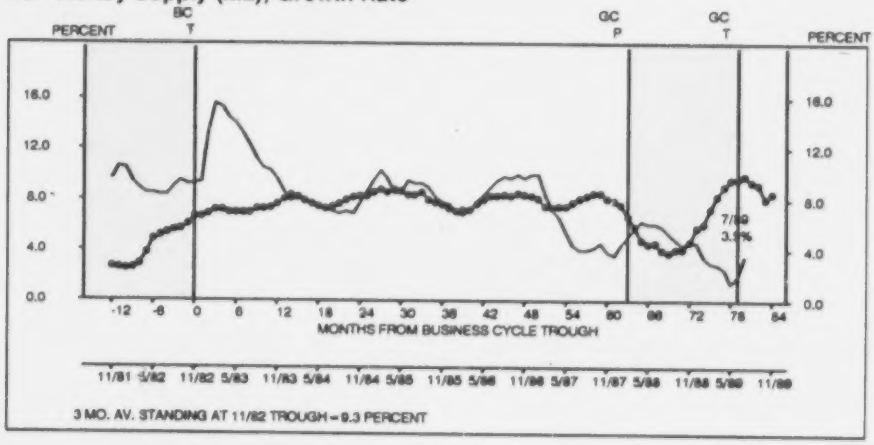
68. Total Debt, Growth Rate



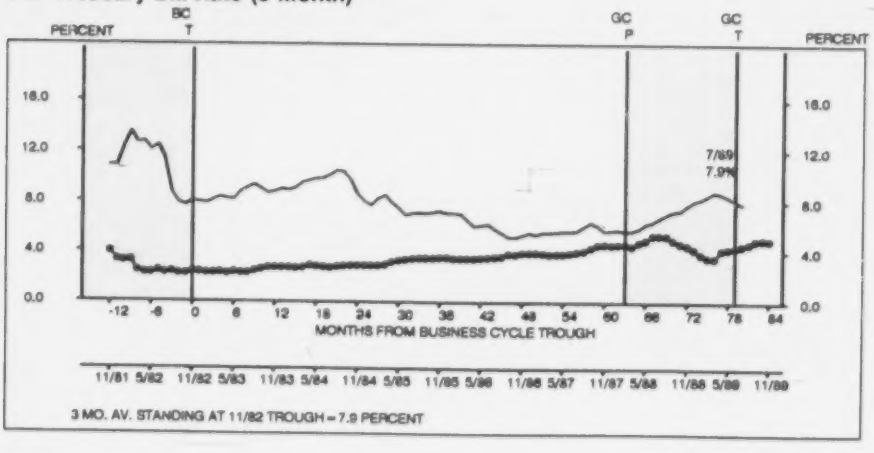
69. Money Supply (M1), Growth Rate



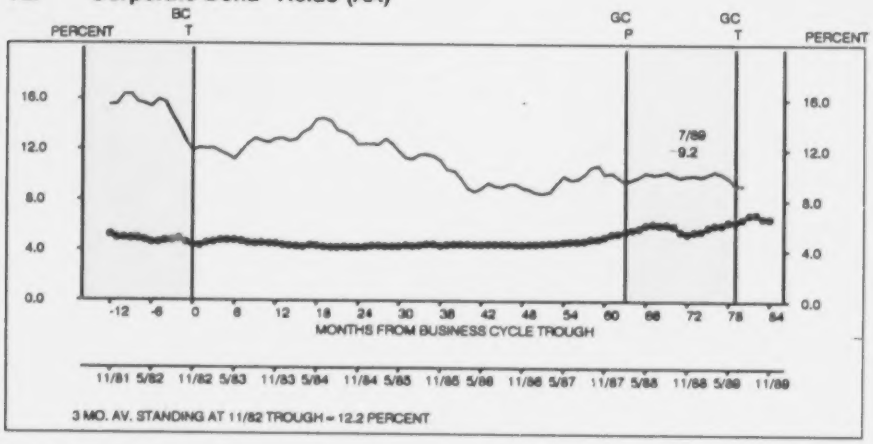
70. Money Supply (M2), Growth Rate



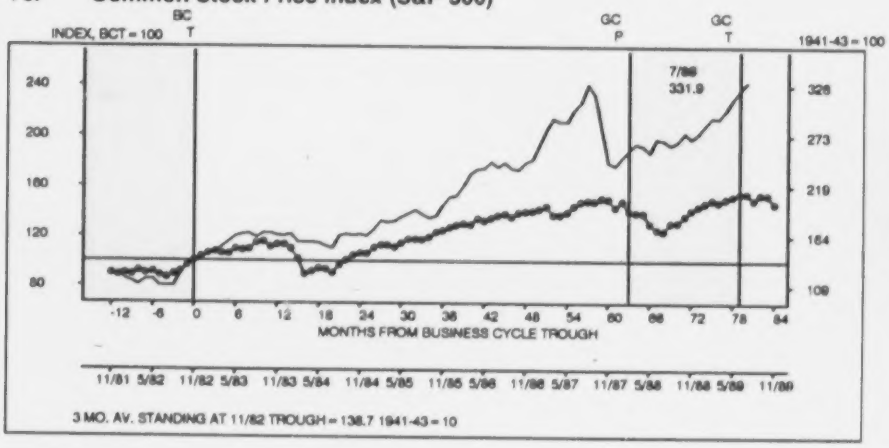
71. Treasury Bill Rate (3-Month)



72. Corporate Bond Yields (AA)



73. Common Stock Price Index (S&P 500)



With some help from lower interest rates, stocks went over the top.

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The series numbers of indicators that are reported in Business Conditions Digest are noted above. Readers may wish to consult the 1984 *Handbook of Cyclical Indicators* for further information on particular time series. The letter symbols L, C, Lg and U identify the timing classification of the series with respect to business cycles, as shown in Business Conditions Digest. L = leading, C = coincident, Lg = lagging, and U = unclassified because of inconsistency in timing. The three letters in parentheses refer to peaks, to troughs, and to peaks and troughs, respectively. When the series we use is similar to but not identical with the BCD series, the BCD classification has been used. In the case of growth rates, we show the classification only where a similar growth rate for the same or similar series is classified in BCD.

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ABOUT THIS REPORT

Recession-Recovery Watch is a quarterly report designed to analyze current business cycle trends in terms of previous recession or recovery patterns in the United States.

This report was begun in August 1979, under the direction of Dr. Geoffrey H. Moore, following the methodology for measuring recessions developed at the National Bureau of Economic Research. Although no forecasts are made, the materials in this report do permit glimpses into the future: first, by analyzing the behavior of various leading indicators; second, by indicating what is likely to happen in terms of what did happen in previous recessions and recoveries.

The leading indicators used in this report are relevant to future output and employment because they represent actions taken, like the placing of orders, that will result in future output, or because they reflect factors, like profits, that influence future decisions on output. The record of what happens during the latter stages of business cycles is relevant because of the family resemblance among successive cycles, a resemblance that has its origin in the processes by which business cycles are generated. Every business cycle has its own surprises, partly because of policy actions taken, but many developments are not surprising, having occurred many times before. The historical comparisons contained in this report help one anticipate what is typical and distinguish it from the unusual.

Other CIBCR publications include International Economic Indicators, a monthly 80-page compilation of charts and data on leading and coincident indicators for eleven industrial countries. Monthly press releases are issued on a leading index of inflation and a leading employment index for the United States. A bulletin on leading and coincident Service Sector Indicators is also published monthly.

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